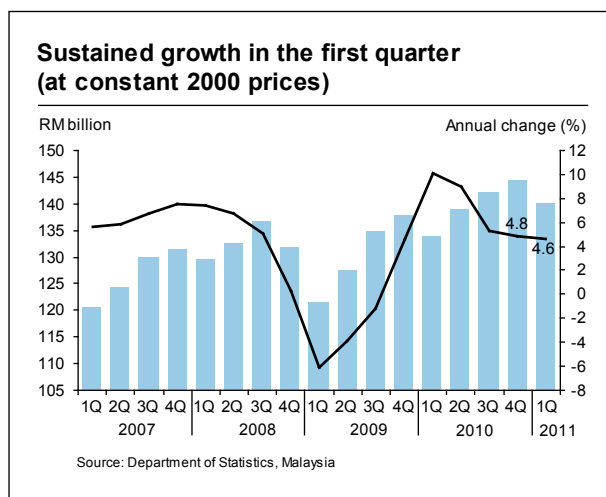


ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FIRST QUARTER OF 2011

OVERVIEW

Sustained growth momentum in the first quarter of 2011

The Malaysian economy registered a growth rate of 4.6% in the first quarter of 2011 (4Q 10: 4.8%). The expansion in domestic demand was supported by higher private sector spending, while external demand also recorded a stronger growth during the quarter, mainly as a result of regional demand for commodities and non-E&E products. On the supply side, all major economic sectors, except the primary commodity sector, continued to expand during the quarter, albeit at a more moderate pace.



Domestic demand grew by 6.6% in the first quarter (4Q 10: 5.9%), supported mainly by the expansion in private sector spending and public consumption. Private consumption registered a strong growth of 6.7% (4Q 10: 6.4%) supported by favourable labour market conditions, positive consumer sentiments and continued income growth. Public consumption increased by 6.1% (4Q 10: 0.1%), due to higher expenditure on emoluments and supplies and services. Growth in gross fixed capital formation (6.5%; 4Q 10: 10%) was driven by private sector capital spending amid high capacity utilisation rates and the implementation of planned capital investment projects. Public sector capital investment was channelled mainly into the transportation, education and industrial sectors.

On the supply side, most major economic sectors recorded continued expansion during the first quarter. Growth in the services sector was sustained at 5.9% (4Q 10: 6.1%) with favourable expansion across most sub-sectors, supported by the improvement in domestic and external demand conditions. The manufacturing sector expanded by 5.4% (4Q 10: 6.2%), supported mainly by growth in the export-oriented industries and the sustained performance of selected domestic-oriented industries. The construction sector registered growth of 3.8% (4Q 10: 5.6%), supported by continued expansion across all sub-sectors. Output in the agriculture sector fell at a slower pace of -0.3% in the first quarter (4Q 10: -3.9%), reflecting the decline in crude palm oil output given continued unfavourable weather conditions. Meanwhile the mining sector contracted further by 3% (4Q 10: -1.2%) following lower production of crude oil due to scheduled maintenance and upgrading works.

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), rose by 2.8% on an annual basis in the first quarter of 2011 (4Q 10: 2.0%), due primarily to the increase in global commodity and food prices. The increase in consumer prices was contributed largely by the *food and non-alcoholic beverages* category, which rose by 4.3% (4Q 10: 2.9%). Prices in the *transport* category also registered an increase of 4.4% (4Q 10: 2.5%) in the first quarter, due to the upward adjustments in the price of RON97 in January and February as a result of higher global crude oil prices.

In the external sector, the trade surplus widened to RM36.1 billion in the first quarter (4Q 10: RM25.5 billion). Both gross exports and imports registered stronger growth of 7.5% and 12.4% respectively (4Q 10: 3.4% and 10.1% respectively). The stronger growth in exports reflected a broad-based expansion in all major export sectors, in particular, a turnaround in the growth of manufactured exports. Imports of intermediate goods rose due to the pick-up in manufactured exports, and contributed to the faster pace of increase in gross imports.

On a cash basis, gross inflows of foreign direct investment (FDI)* amounted to RM7.8 billion in the first quarter following the exceptional volume of RM13 billion recorded in the fourth quarter of 2010. After adjusting for gross outflows due mainly to the repayment of inter-company loans, net FDI was also lower at RM4.6 billion (4Q 10: +RM8.6 billion). Gross FDI inflows were channelled mainly into the manufacturing, services and mining sectors. Direct investment abroad (DIA)* by Malaysian companies recorded a net outflow of RM3.8 billion in the first quarter (4Q 10: -RM3.9 billion), reflecting mainly lower outflows of equity capital, which more than offset the larger net extension of inter-company loans to subsidiaries abroad. These investments were largely undertaken by companies in the finance and insurance, business services and communications industries in the services sector. Portfolio investment recorded a larger net inflow of RM4.7 billion in the first quarter (4Q 10: +RM3.3 billion), reflecting stronger foreign participation in the domestic capital market, particularly the debt market.

The international reserves of Bank Negara Malaysia amounted to RM344.5 billion (equivalent to USD113.8 billion) as at 31 March 2011. The reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 29 April 2011, the reserves position amounted to RM393.2 billion (equivalent to USD130 billion), sufficient to finance 9.3 months of retained imports and is 4.3 times the short-term external debt.

Monetary policy supported economic activity

The OPR was left unchanged at 2.75% in the first quarter of 2011. On 5 May 2011, the Monetary Policy Committee (MPC) raised the OPR by 25 basis points to 3.00 percent to adjust the degree of monetary accommodation. At the current OPR level, the stance of monetary policy remains supportive of growth.

The average overnight interbank rate was stable, moving within a range of 2.67% to 2.75% during

the period 1 January – 31 March 2011. Interbank rates of other maturities were also stable. In terms of retail interest rates, the average quoted fixed deposit (FD) rates of commercial banks, average base lending rate (BLR) of commercial banks (CBs), and average lending rate (ALR) on loans outstanding were stable.

In the first quarter, financing conditions remained supportive of economic activity. The continued access to financing in the financial system supported the demand for financing from the private sector. Total gross financing raised by the private sector through the banking system and the capital market was sustained at RM202 billion in the first quarter (4Q 10: RM221 billion). On a net basis, banking system loans and PDS outstanding rose at an annual rate of 12.5% as at end-March (4Q 10: 11.3%). Major loan indicators remained strong in the first quarter.

Net funds raised in the capital market by both the public and private sectors amounted to RM29.7 billion (4Q 10: RM30.5 billion). The bulk of funds were raised by the public sector's issuance of 10.5-year and 3.5-year Malaysian Government Securities (MGS), and a 7.5-year and 3.5-year Government Investment Issues (GII), as well as the re-opening of a 5.5-year MGS.

Monetary aggregates continued to grow at a sustained pace in the first quarter. M3, or broad money, expanded at a faster annual growth rate of 8.2% as at end-March 2011 (end-Dec 2010: 7.0%).

For the quarter as a whole, the ringgit appreciated by 1.9% against the US dollar. The positive growth outlook in Asia relative to the developed economies boosted investors' interest in the regional economies, providing continued support to the ringgit and the regional currencies. The release of better-than-expected figures for domestic GDP growth for the fourth quarter also provided the impetus for the ringgit's strength. Against other major currencies, the ringgit strengthened against the Japanese yen (3.5%)

* The statistics for FDI and DIA on a cash basis does not include retained earnings.

but depreciated against the euro (-4.6%) and pound sterling (-1.8%). During the period between 1 April to 16 May 2011, the ringgit depreciated by 0.4% against the US dollar. The ringgit also depreciated against the Japanese yen (-2.4%), the euro (-0.1%) and the pound sterling (-0.9%). Within the region, the ringgit depreciated in the range of -0.4% to -2.0%, as factors specific to other countries led to faster appreciation of their currencies relative to the ringgit.

Financial stability continues to be preserved

Financial system stability was sustained, underpinned by a resilient financial sector and the orderly functioning of the financial markets, which continued to provide support for financial intermediation in the domestic economy. During the quarter, financial sector resilience was reinforced by the manageable level of risk exposures. The resilience of the sector was evident in the sound level of capitalisation, firm profitability and stable quality of assets. The core capital ratio and risk-weighted capital ratio of the banking sector stood at 12.7% and 14.3% respectively, while the capital adequacy ratio of the insurance sector remained firm at 225.7%. To further reinforce the soundness of the household sector and the stability of the financial system, the Bank introduced a number of policy measures during the quarter. These include the issuance of a new Credit Card Guideline, raising the capital charges on housing loans where the loan-to-value (LTV) ratio exceeds 90% and for longer-tenured personal financing. This is to promote responsible lending practices by financial institutions, in particular for retail financing. A financial education programme known as the POWER! Programme has also been introduced to raise the level of financial literacy.

Growth of the domestic economy to be sustained amid heightened uncertainties in the global economy

The global economic recovery continued to strengthen in the first quarter of the year. Growth however continues to be highly uneven. More recently, several developments in the global economic environment and the international financial system have highlighted the fragility of global growth. However, in the event of higher commodity prices being sustained over an extended period, the escalation of fiscal conditions in the advanced economies and possible global supply disruptions following the developments in Japan, the downside risks to growth may increase. The growth prospects in the emerging economies continue to remain positive. These economies however are confronted with increasing challenges from rising inflationary pressures and continued large and volatile capital flows.

The sustained expansion in the first quarter underscores the steady pace of growth of the Malaysian economy, underpinned by the continued expansion of domestic demand amid improving external demand arising from higher commodity exports and stronger regional demand. Going forward, growth is expected to be sustained. Growth in private consumption will continue to be firm, given the favourable employment conditions and income growth, while private investment is expected to strengthen further amid an improving outlook for the domestic economy and the further expansion of new growth industries. Being a highly open economy however, the domestic economy may be affected by developments in the global environment. Nevertheless, Malaysia's strong economic fundamentals and policy flexibility have increased our resilience and improved our ability to manage these challenges.

DEVELOPMENTS IN THE FIRST QUARTER OF 2011

INTERNATIONAL ECONOMIC ENVIRONMENT

Global growth continued at a modest pace while conditions in the international financial markets were volatile amid heightened uncertainty

The improvement in the global economy continued at a modest pace in the first quarter of 2011 amid heightened risks to global growth, including geopolitical tensions and Japan's natural disasters. In the advanced economies, growth remained modest while Japan's growth was affected by the 11 March earthquake. Conditions in the international financial markets during the quarter were affected by the tensions in the Middle East and North Africa (MENA) region which contributed to strong increases in global oil prices and the ongoing sovereign debt concerns in the euro area, particularly Portugal. Towards the latter part of the quarter, the impact of Japan's crisis on volatility in the foreign exchange market resulted in the first G-7 co-ordinated intervention since 2000. Economic activity in the emerging economies continued to remain robust, underpinned by resilient domestic demand and augmented by stronger-than-expected export performance. As inflationary pressures become the main focus for the emerging economies amid fears of supply shocks, central banks in these economies continued to tighten monetary policy during the quarter to manage inflation expectations amid continued surges in capital inflows into the emerging economies.

The **US** economy grew at a modest pace of 1.8% in the first quarter (4Q 10: 3.1%) due to weaker domestic demand and higher imports. While personal consumption growth continued to be supported by higher financial net wealth, improving employment prospects and better credit conditions, the pace moderated during the quarter due to unusual bad weather conditions and higher gasoline prices. Private fixed investment rose by 0.7% (4Q 10: 6.8%), following continued weakness in construction activity that offset the acceleration of capital spending on equipment and software investment. The drag to growth also came from contraction in government spending and higher

imports in tandem with rising oil prices. Inflation grew at a faster rate of 2.1% (4Q 10: 1.3%) due to higher energy and food prices.

In the **euro area**, real GDP expanded at a stronger pace of 0.8% on a quarter-on-quarter basis (4Q 10: 0.3%). On an annual basis, the economy grew by 2.5% in the first quarter (4Q 10: 2%). Growth was supported by improvements in both exports and domestic demand in the core economies, in particular Germany and France. In Germany, the recovery in domestic demand was supported by better labour market conditions and improved consumer and business sentiments, while exports benefited from stronger global demand. In contrast, economic activity in the peripheral economies continued to be affected by weak domestic demand, which was weighed down by fiscal austerity measures. On the inflation front, consumer prices rose at a faster pace of 2.5% (4Q 10: 2%), due to higher energy and food prices.

The **UK** economy experienced a quarter-on-quarter expansion of 0.5% (4Q 10: -0.5%) in the first quarter. On an annual basis, GDP grew at a faster pace of 1.8% (4Q 10: 1.5%). The stronger growth during the quarter was supported by an improvement in the services sector, in particular business services and finance. Private consumption and exports rebounded in January after bad weather conditions severely affected economic activity in December 2010. The improvement in economic indicators, however, moderated thereafter as the temporary effects waned. Consumer confidence continued to weaken following the impact of fiscal austerity measures, concerns over the economy's growth prospects and higher consumer prices. Inflation grew at a faster rate of 4.1% during the quarter (4Q 10: 3.4%), driven by higher commodity prices and the increase in the value added tax in January.

Economic activity in **Japan** during the first quarter moderated due to the impact of the natural disasters on 11 March and the subsequent nuclear crisis. The disruption in

Advanced Economies: Real GDP Growth

	2010			2011	Key contributing factors for 1Q growth
	1Q	4Q	Year	1Q	
	Annual change (%)				
US ¹	3.7	3.1	2.9	1.8 ^a	Moderation in growth due to weaker domestic demand and higher imports.
UK	-0.4	1.5	1.3	1.8 ^p	Growth supported by improvement in the services sector, in particular business services and finance.
Euro area	0.8	2.0	1.7	2.5 ^p	Growth supported by improvements in both exports and domestic demand in the core economies, in particular Germany and France.

¹ Annualised basis

^a Advance estimate

^p Preliminary

Source: National authorities

power supply and the damage to infrastructure have led to uncertainty in production activity for manufacturers and thus, the world given the importance of Japan in the global production chain for E&E and automobiles. The moderation in exports that have taken place pre-crisis was further exacerbated by the crisis, with a negative exports growth in March (Feb: 9%) due to lower shipments of automobiles, semiconductor products and electronics. For the quarter, exports were up only by a modest 2.7% (4Q 10: 10%). On the domestic front, household spending declined further by 3.2% during the quarter (4Q: -1.4%) as household sentiments were affected by the nuclear crisis. Deflationary pressures continued to persist as core consumer prices (excluding fresh food) declined, albeit at a slower pace of 0.2% (4Q 10: -0.5%).

In the US, the **Federal Reserve** (the Fed) maintained the federal funds rate at 0 - 0.25% and the USD600 billion purchase of longer-term Treasury securities, which was targeted for completion by the end of the second quarter of 2011. During the first quarter, the **European Central Bank** (ECB) signalled that it will raise interest rates in response to rising inflationary pressures. Subsequently, on 7 April, the ECB increased its key policy rate by 25 basis points to 1.25%. In contrast, in balancing between higher inflation and a fragile economic recovery, the **Bank of England** (BoE) decided to leave its policy rate unchanged at 0.5% and maintained the size of its asset purchase programme at £200 billion. The **Bank of Japan** (BoJ) maintained its overnight policy rate at a

range of between 0 - 0.1% during the quarter. However, in response to the natural disasters, the central bank announced a liquidity injection totalling ¥55.6 trillion into the banking system as a short-term measure to ensure stability in the financial markets. In addition, the BoJ doubled the size of its asset purchase programme to buy government and corporate bonds to ¥10 trillion. In April, the BoJ introduced a one-year ¥1 trillion lending programme at a rate of 0.1% to assist companies in the affected areas. It also announced that it will broaden the range of eligible collateral for money market operations in order to ensure sufficient financing capacity for the financial institutions in the affected areas.

Economic activity in the **Asian** region remained strong in the first quarter. Although growth moderated compared to the previous quarter, the performance was generally better than expected as growth continued to be underpinned by resilient domestic demand and augmented by the improvement in external demand. The improvement in export performance was mainly due to growing demand from the regional economies and the US, particularly for electrical and electronics products. The impact of the production disruptions in Japan on regional exports has been mixed so far. While Chinese Taipei and Singapore experienced slower exports to Japan in March due to lower shipments of E&E parts and components, Korea benefited from increased Japanese demand for oil and steel products as well as disaster-related items such as food and bottled water. Meanwhile, domestic demand conditions in the regional

economies remained favourable, as indicated by continued expansion in bank lending and retail sales. Growth in **Singapore** expanded by 8.5% (4Q 10: 12%), led by expansion in the manufacturing sector, particularly the electronics and precision engineering clusters. **PR China** registered a growth of 9.7% (4Q 10: 9.8%) driven by continued expansion in the manufacturing sector. In **Korea**, the economy expanded by 4.2% (4Q 10: 4.7%), attributed mainly to higher exports and sustained private consumption expenditure. The **Chinese Taipei** economy expanded by 6.2% (4Q 10: 6.9%), due mainly to higher private consumption activity amid a sustained strong export performance. **Indonesia**'s economy grew by 6.5% during the quarter (4Q 10: 6.9%). The growth was broad-based, led by private consumption, investment and exports. In **Hong Kong SAR**, the economy registered a higher growth of 7.2% (4Q 10: 6.4%), driven mainly by an improvement in exports and sustained strong private consumption.

An acceleration in inflation, mainly driven by higher food and energy prices, had prompted

policy responses from central banks in the region during the quarter as the balance of risks shifted towards containing inflation. These responses include the increases in policy rate in PR China, India, Indonesia, Korea, Philippines, Chinese Taipei, Thailand and Vietnam. Similarly, in an effort to ensure price stability in the medium term, the **Monetary Authority of Singapore** re-centred the exchange rate policy band upwards in April. In economies that faced excessive volatility in capital flows, macroprudential measures were used to complement monetary policy in addressing financial vulnerabilities and concerns. **Bank Indonesia** raised its foreign exchange holdings reserve requirement, while the **People's Bank of China** increased its reserve requirements on statutory banks. The **Central Bank of the Republic of China** (Taiwan) limited banks' holdings of non-deliverable forwards (NDFs) and options in the local currency. Additionally, in response to rising inflationary pressures, several authorities in the region implemented a range of administrative measures to counter inflation (Korea, Thailand and Indonesia).

Regional Countries: Real GDP Growth

	2010			2011	Key contributing factors for 1Q growth
	1Q	4Q	Year	1Q	
	Annual change (%)				
PR China	11.9	9.8	10.3	9.7	Supported by robust domestic demand, in contrast to negative contribution from external demand.
Singapore	16.4	12.0	14.5	8.5 ^a	Growth led by expansion in the manufacturing sector.
Hong Kong SAR	8.0	6.4	7.0	7.2	Driven mainly by improvement in exports and sustained strong private consumption.
Indonesia	5.6	6.9	6.1	6.5	Growth supported by expansion in private consumption, investment and exports.
Chinese Taipei	13.6	6.9	10.8	6.2 ^a	Due mainly to higher private consumption and sustained strong export performance.
Korea	8.5	4.7	6.2	4.2 ^a	Attributed to higher exports growth and sustained private consumption.

^a Advance estimate

Source: National authorities

Prices of **crude oil**¹ continued to trend upwards in the first quarter, averaging USD94 per barrel (4Q 10: USD85 per barrel). Heightened concerns over supply disruptions following political unrest in a number of countries in the MENA region had pressured crude oil prices higher. The sustained upward trend in the quarter was also supported by expectations of rising demand, driven by the ongoing global economic recovery. Towards the end of the quarter, crude oil prices remained above USD100 per barrel, registering an increase of 16.8% from the start of the year. On 29 April, crude oil prices rose to USD113.93, the highest level since September 2008.

In the **foreign exchange markets**, both the euro and the pound sterling appreciated against the US dollar during the quarter, following better economic prospects in the core euro area economies as well as market expectations of an earlier-than-expected rate increase by both the ECB and the BoE. The yen also continued to strengthen against the US dollar, reaching a record high of ¥76.25 on 17 March, reflecting market speculation of large repatriation of funds into Japan following the recent earthquake extrapolating from experience of the Kobe earthquake in 1995. This led to a coordinated foreign exchange intervention by the G7 economies on 18 March, following which the yen retreated to ¥81.16. Most regional currencies also strengthened against the US dollar in the quarter following continued capital flows into the region, driven by the region's relatively favourable growth prospects. However, the

pace of appreciation was limited by some increase in risk aversion in view of growing uncertainty from rising global commodity prices and the potential impact of the disaster in Japan on the global supply chain. On 29 April, the Chinese yuan traded at a 17-year high of 6.4905 per US dollar while the Singapore dollar reached a new record high of SGD1.2232 per US dollar on 2 May.

Going forward, while the baseline forecast remains intact, downside risks to the sustainability of global growth have increased given the high degree of uncertainty arising from the strong increases in global oil prices, the impact of Japan's disaster on the global production network and the lingering concern on fiscal issues in the advanced economies. The nascent global recovery may be affected if oil prices remain elevated for a sustained period. In addition, the full extent of the impact of the Japan crisis on the global supply chain as well as the global economy remains unclear given the fact that Japan is a global producer of many important parts and components for the E&E and automobile industries. The ongoing fiscal issues in both the euro area and the US are likely to create significant volatility in the global financial markets given investors' concerns over the sustainability of fiscal framework in these economies. These, together with elevated levels of uncertainty, would increasingly pose a complex set of challenges for the monetary policy setting environment as monetary authorities aim to achieve a balance between keeping inflation low and stable whilst promoting growth and maintaining financial stability.

¹ Refers to West Texas Intermediate one-month futures on NYMEX

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Sustained growth in the first quarter

The Malaysian economy registered a growth of 4.6% in the first quarter of 2011, driven by firm domestic demand and a stronger expansion in external demand. The strong expansion in domestic demand was supported mainly by private sector spending. External demand registered an improved performance during the quarter supported by regional demand for commodities and non-E&E products. On the supply side, all major economic sectors, except for the primary sectors, continued to expand during the quarter, but at a more moderate pace.

Domestic demand continued to expand

Domestic demand expanded by 6.6% in the first quarter (4Q 10: 5.9%), supported mainly by the expansion in private sector spending and public consumption.

Private consumption expanded by 6.7% in the first quarter (4Q 10: 6.4%), supported by sustained labour market conditions, positive consumer sentiments and continued income expansion. Consumer spending was also boosted by the sales promotions held in the early part of the quarter due to festive celebrations. Major consumption indicators such as sales of passenger cars, credit card spending and bank lending for consumption continued to show strong positive trend, reflecting robust consumption activity during the quarter. Although the first quarter MIER Consumer Sentiments Index was lower at 108.2 points (4Q 10: 117.2 points), it remained above the 100-point benchmark, reflecting sustained positive consumer confidence.

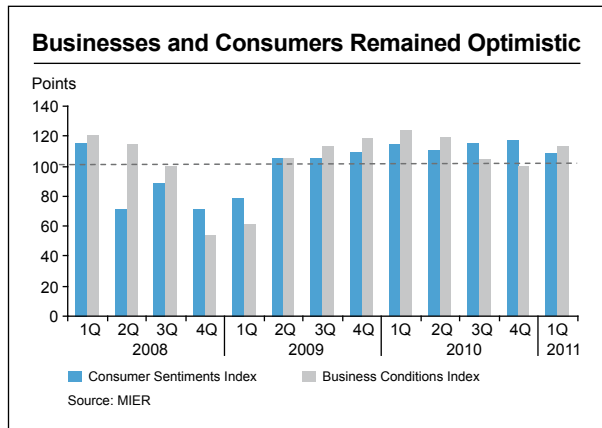
GDP by Expenditure Components (at constant 2000 prices)

	2010			2011
	1Q	4Q	Year	1Q
Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	5.5	5.9	6.3	6.6
Consumption	5.4	4.8	5.2	6.6
<i>Private sector</i>	5.2	6.4	6.5	6.7
<i>Public sector</i>	6.8	0.1	0.5	6.1
Gross Fixed Capital Formation	5.8	10.0	9.8	6.5
Net Exports	-15.1	-19.2	-25.7	-24.2
<i>Exports of Goods and Services</i>	19.1	1.7	9.9	3.7
<i>Imports of Goods and Services</i>	27.8	3.5	15.1	8.4
GDP	10.1	4.8	7.2	4.6

Source: Department of Statistics, Malaysia

Public consumption increased by 6.1% (4Q 10: 0.1%) due to higher spending on emoluments and supplies and services.

Gross fixed capital formation expanded by 6.5% (4Q 10: 10%), driven mainly by private sector capital spending. Private sector investment was supported by the expansion in production as reflected by the high capacity utilisation rates in the manufacturing sector and the continued implementation of planned capital investment projects. Major investment indicators such as sales of commercial vehicles and bank lending to businesses recorded strong performance, pointing to an expansion in business spending activity. Of importance, business sentiments improved in the first quarter, as the MIER Business Conditions Index exceeded the 100-point benchmark (113.3 points; 4Q 10: 99.5 points). The public sector capital expenditure was channelled mainly into the transportation, education and industrial sectors.



Meanwhile, the primary sectors experienced smaller contraction in the first quarter, reflecting the decline in production given supply-side factors.

Sustained growth in the services sector

The **services sector** registered a growth of 5.9% in the first quarter (4Q 10: 6.1%). Growth continued to be favourable in most sub-sectors, in line with the sustained improvement in domestic and external demand conditions. The services sector remained the largest contributor to growth, with a contribution of 3.4 percentage points to overall GDP growth.

The **finance and insurance** sub-sector expanded further by 6.8% (4Q 10: 3.7%), following continued growth in bank lending and higher fee-based income. The real estate and business services sub-sector recorded a sustained growth of 8.7%, supported by capital market-related activity and the continued increase in property transactions during the quarter.

The **wholesale and retail trade** sub-sector registered a growth of 6.8% (4Q 10: 8.3%) with an expansion in retail and motor vehicle sales, benefiting from positive consumer sentiments and sustained household spending. The **accommodation and restaurant** sub-sector grew by 4% (4Q 10: 3.7%), amid the festive holidays.

The **communication** sub-sector grew by 6.5% (4Q 10: 9.8%) amid strong demand for both mobile data and broadband services, while the transport and storage sub-sector registered a growth of 4.3% (4Q 10: 5.2%), supported mainly by higher demand for cargo-related transport services, in line with the increase in total trade.

GDP by Economic Activity (at constant 2000 prices)

	2010			2011
	1Q	4Q	Year	1Q
	Annual change (%)			
Agriculture	7.2	-3.9	2.1	-0.3
Mining	1.0	-1.2	0.2	-3.0
Manufacturing	17.1	6.2	11.4	5.4
Construction	8.6	5.6	5.1	3.8
Services	8.6	6.1	6.8	5.9
Real GDP (Annual Change)	10.1	4.8	7.2	4.6
Real GDP (Preceding Change)	-2.9	1.7	7.2	-3.1

Source: Department of Statistics, Malaysia

Moderate growth across most major economic sectors

On the supply side, most major economic sectors recorded continued expansion in the first quarter of 2011. Growth in the **services sector** was sustained, supported by favourable domestic and external demand conditions. Growth in the **manufacturing sector** was supported mainly by growth in the export-oriented industries and sustained performance of selected domestic-oriented industries.

Performance of the Services Sector (value added at constant 2000 prices)

	Share 2010 (%)	2010			2011
		1Q	4Q	Year	1Q
		Annual change (%)			
Intermediate Services	43.7	8.7	6.0	7.3	6.8
Finance & insurance	20.3	7.1	3.7	6.4	6.8
Real estate & business services	9.5	14.2	8.7	7.8	8.7
Transport & storage	6.6	8.1	5.2	6.9	4.3
Communication	7.4	6.7	9.8	8.5	6.5
Final Services	56.3	8.5	6.3	6.4	5.1
Wholesale & retail trade	23.6	9.7	8.3	8.0	6.8
Accommodation & restaurant	4.2	5.5	3.7	5.0	4.0
Utilities	5.2	16.8	4.2	8.2	0.4
Government services	13.0	7.6	6.1	5.8	5.3
Other services	10.2	4.7	3.9	4.0	3.9
Total Services	100.0	8.6	6.1	6.8	5.9

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2010				2011
	1Q	2Q	3Q	4Q	1Q
	Index				
MIER Consumer Sentiments Index	114.2	110.4	115.8	117.2	108.2
MIER Retail Trade Index	106.9	134.1	140.0	132.0	99.1
MIER Tourism Market Index	120.5	118.2	118.8	124.6	113.1
	Annual change (%)				
Tourist arrivals	5.3	3.9	5.6	1.2	-3.7
Total passenger traffic at all airports	20.3	14.1	10.0	6.3	11.8
Total consumption credit outstanding	9.5	10.6	10.7	9.8	9.5
Loans outstanding to the wholesale & retail trade, hotels & restaurants	4.5	8.6	7.3	7.5	7.2
Imports of consumption goods	18.5	13.3	3.2	6.9	5.3
Total sales of motor vehicles	22.7	17.4	3.7	9.3	7.5
Container cargo handled (Port Klang and PTP)	22.5	21.3	10.9	9.6	14.4

Source: Various sources

Moderate growth in the manufacturing sector

Value-added in the manufacturing sector expanded by 5.4% in the first quarter (4Q 10: 6.2%), supported mainly by growth in the export-oriented industries and sustained performance of selected domestic-oriented industries.

Performance of the Manufacturing Sector				
	2010			2011
	1Q	4Q	Year	1Q
Annual Change (%)				
Value Added (at constant 2000 prices)	17.1	6.2	11.4	5.4
Overall Production ¹	15.3	6.6	11.1	5.7
Export-oriented industries	14.5	4.6	9.7	4.8
Electronics and electrical products cluster	36.0	0.1	17.4	-6.1
<i>Of which:</i>				
Electronics	24.0	-16.5	3.2	-19.3
Electrical products	65.0	34.7	47.4	17.7
Primary-related industry cluster	4.5	7.2	5.7	11.4
<i>Of which:</i>				
Chemicals and chemical products	24.7	4.7	11.5	5.5
Petroleum products	-22.1	16.3	-2.4	26.1
Rubber products	37.8	12.7	20.8	13.5
Off-estate processing	4.3	-14.1	-2.3	-7.4
Domestic-oriented industries	18.1	13.6	15.6	8.6
Construction-related cluster	21.8	22.2	18.9	22.3
<i>Of which:</i>				
Construction-related materials	27.2	20.4	21.9	15.0
Fabricated metal products	14.9	24.7	15.0	32.8
Consumer-related cluster	15.6	7.6	13.4	-1.0
<i>Of which:</i>				
Transport equipment	40.5	20.8	29.7	-4.5
Food, beverage & tobacco products	2.5	9.3	8.8	6.2

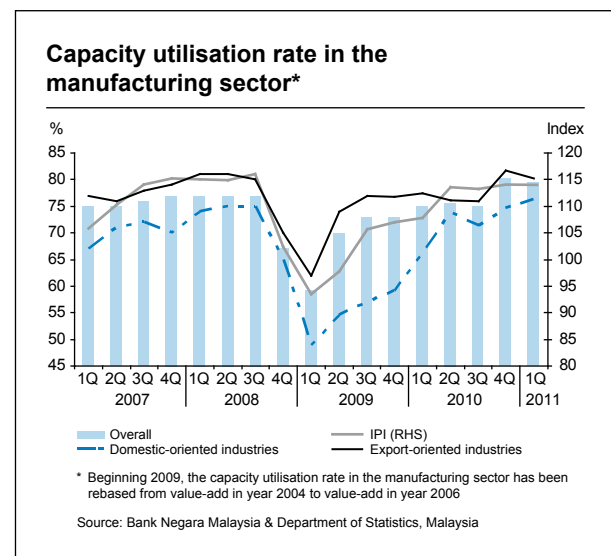
¹ Industrial Production Index (2005=100)
Source: Department of Statistics, Malaysia

Growth in the **export-oriented industries** expanded by 4.8% during the quarter (4Q 10: 4.6%), driven by robust performance in the primary-related cluster, in particular the

petroleum and rubber product segments. Production in the E&E cluster however contracted (-6.1%; 4Q 10: 0.1%), due mainly to continued declines in the production of PC and parts and semiconductors.

Domestic-oriented industries expanded at a more moderate pace (8.6%; 4Q 10: 13.6%) supported mainly by growth in the construction-related cluster (22.3%; 4Q 10: 22.2%), particularly the fabricated metal and non-metallic mineral product segments as these industries continued to benefit from domestic construction activities.

Overall capacity utilisation rate in the manufacturing sector moderated marginally in the first quarter (79%; 4Q 10: 80%), reflecting softer production growth in the sector. Export- and domestic-oriented industries were operating at 80% and 76% of total capacity respectively (4Q 10: 82% and 75% respectively).



Slower contraction in the primary sector

The primary sector experienced a slower contraction in the quarter compared to the fourth quarter. Value-added in the **agriculture sector** contracted by 0.3% in the first quarter (4Q 10: -3.9%), reflecting the decline in crude palm oil output as above average rainfall curbed harvesting. However, the production of food crops remained strong during the quarter. The **mining sector** contracted by 3% (4Q 10: -1.2%), reflecting lower production of crude oil mainly on account of the reservoir management and maintenance work on selected oil fields.

Performance of the Agriculture Sector

	2010			2011
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at constant 2000 prices)	7.2	-3.9	2.1	-0.3
Industrial Crops	8.3	-10.2	-2.3	-8.4
Food Crops	6.6	4.9	7.9	8.9
Production				
Of which:				
Crude palm oil	1.9	-15.1	-3.3	-7.7
Rubber	34.6	6.1	9.6	2.1
Fish	-2.5	2.4	2.7	2.0
Livestock	7.5	-2.2	2.4	-8.2 ¹

¹ Jan-Feb 2011

Source: Malaysian Palm Oil Board (MPOB)
Malaysian Rubber Board (MRB)
Fisheries Department, Malaysia
Department of Veterinary Services, Malaysia
Department of Statistics, Malaysia

Performance of the Mining Sector

	2010			2011
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at constant 2000 prices)	1.0	-1.2	0.2	-3.0
Production				
Of which:				
Crude oil and condensates	-2.0	-3.4	-3.5	-6.2
Natural gas	2.5	2.0	4.4	1.0

Source: PETRONAS
Department of Statistics, Malaysia

Moderate growth in the construction sector

The **construction sector** expanded by 3.8% during the quarter (4Q 10: 5.6%), supported by continued growth across all sub-sectors. The ongoing construction of office and retail spaces supported the activity in the non-residential sub-sector, while the expansion in the civil engineering sub-sector reflected further progress in the implementation of infrastructure projects, including commencement of the LRT extension. The residential sub-sector expanded further amid positive consumer and business sentiments, and continued access to financing.

Indicators for the Construction Sector

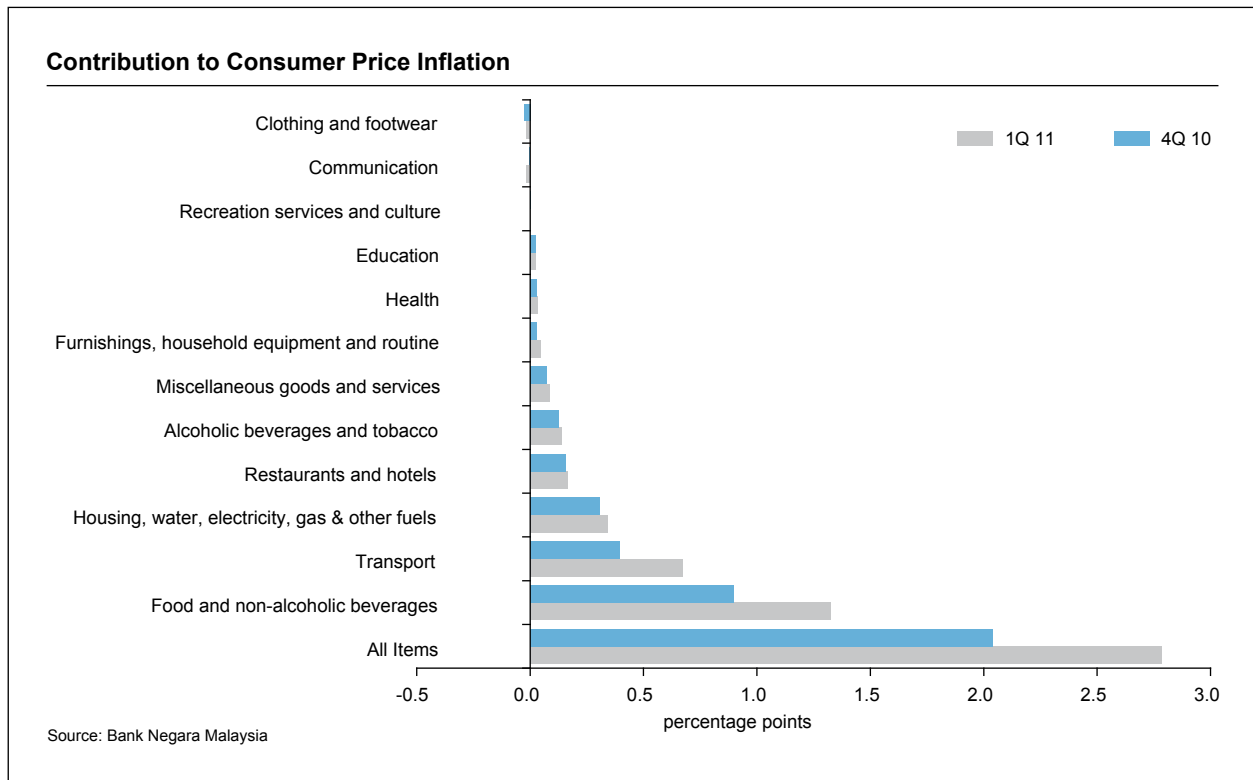
	2010			2011
	1Q	4Q	Year	1Q
	Annual change (%)			
New sales and advertising permits	32.0	13.0	16.0	25.1
Housing approvals	13.9	31.7	23.6	31.6
Production ¹ of construction-related materials	21.8	22.2	18.9	22.3
Loans approved for construction	40.5	49.7	53.6	29.3
Imports of construction materials and mineral products	54.2	23.1	27.9	-2.3 ²

¹ Industrial Production Index (2005=100)
² Jan-Feb 2011

Source: Ministry of Housing and Local Government and Department of Statistics, Malaysia

Inflation increased in the first quarter

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), rose by 2.8% on an annual basis in the first quarter of 2011 (4Q 10: 2.0%). The increase in consumer prices was largely contributed by the *food and non-alcoholic beverages* category, which rose by 4.3% (4Q 10: 2.9%). The increase in food prices was the result of an increase of 12.4% (4Q 10: 7.7%) in the *vegetables* sub-category due partly to adverse weather conditions domestically. Prices in the *transport* category also registered an increase of 4.4% (4Q 10: 2.5%) during the quarter due to the upward adjustment in the price of RON97 in January and February following the higher global crude oil prices. These price increases, however, were partially mitigated by declining prices in the *clothing and footwear* and *communication* categories.



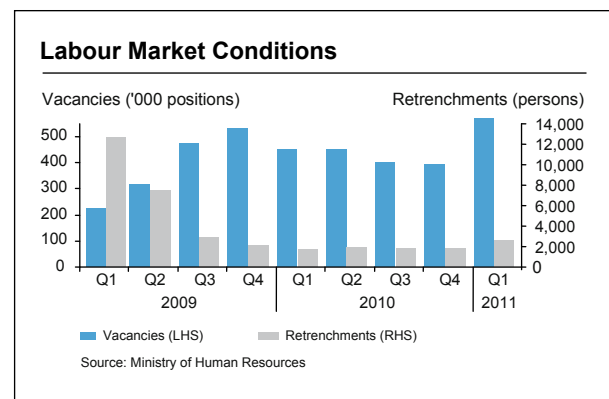
The Producer Price Index (PPI) increased at a higher rate of 7.4% on a yearly basis in the first quarter of 2011 (4Q 10: 4.8%). Prices in the commodity-related components were higher at 19.5% (4Q 10: 13.0%). Similarly, prices in the non commodity-related components of the PPI registered a higher increase of 1.7% (4Q 10: 1.1%). In terms of composition, prices in the imported component of the PPI recorded an increase of 1.8% (4Q 10: 1.1%) while prices in the local component of the PPI rose by 9.9% (4Q 10: 6.6%).

Sustained labour market conditions

Overall labour market conditions remained positive in the first quarter. Despite the relatively higher retrenchments, total vacancies rose significantly, while the overall unemployment rate remained relatively unchanged during the first two months of the quarter. Retrenchments increased to 2,621 persons (4Q 10: 1,761 persons), due mainly to the higher layoffs in the manufacturing sector particularly in the month of March. The higher layoffs were notably in the wood, rubber and plastics industries, which collectively accounted for about 60% of total

retrenchments in the manufacturing sector during the quarter. The services sector, however, recorded fewer layoffs.

Labour demand across all sectors of the economy, with the exception of mining, strengthened during the quarter. Total job vacancies posted on JobsMalaysia Portal rose significantly (568,717 positions; 4Q 10: 393,408 positions), following higher job openings, particularly in the utilities, finance and business services sub-sectors. Corresponding to these developments, the average unemployment rate was sustained at 3.2%.



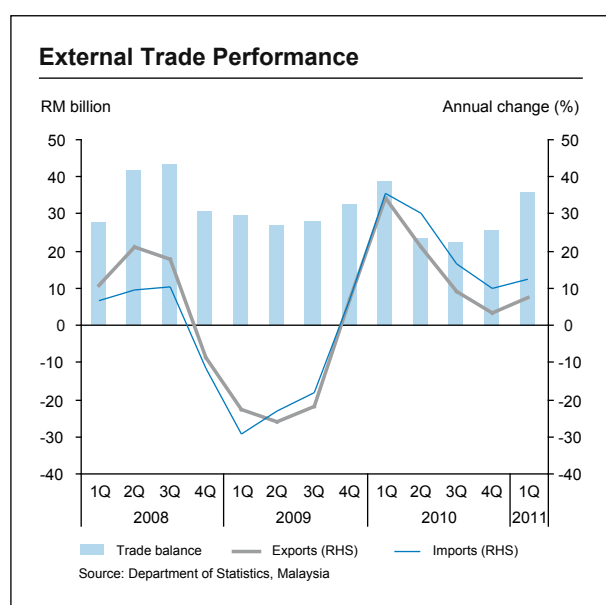
Improvement in external trade activities

The **trade surplus** widened to RM36.1 billion in the first quarter of 2011 (4Q 10: RM25.5 billion). Gross exports increased further by 7.5% (4Q 10: 3.4%), reflecting expansion in all major export sectors. Gross imports also expanded further by 12.4% (4Q 10: 10.1%), driven mainly by imports of intermediate goods.

The broad-based expansion in **gross exports** saw a turnaround in **manufactured exports** (3%; 4Q 10: -0.4%), which were boosted by stronger external demand for electronics,

particularly semiconductors. The sustained growth in exports of non-E&E products was attributed to higher regional demand for machinery, appliances and parts, optical and scientific equipment and resource-based products. **Commodity exports** continued to register robust growth, benefiting from higher prices of most commodities and sustained regional demand.

Gross imports registered a stronger growth due mainly to higher imports of intermediate goods, in tandem with the pick-up in manufactured exports. Capital and consumption imports continued to increase amidst positive business and consumer sentiments in the domestic economy.



Trade Account

	2010			2011
	1Q	4Q	Year	1Q
	Annual change (%)			
Gross Exports	34.5	3.4	15.7	7.5
Manufactured	33.2	-0.4	12.0	3.0
E&E	36.3	-8.0	9.7	-0.8
Non-E&E	29.6	9.9	15.0	7.4
Commodities	40.0	15.9	26.8	20.1
Agriculture	45.8	33.1	29.5	25.1
Minerals	36.3	5.0	25.0	16.7
Gross Imports	35.6	10.1	21.7	12.4
Capital goods	9.7	9.4	16.2	9.3
Intermediate goods	37.9	10.5	22.1	13.2
Consumption goods	18.5	6.9	10.1	5.3
Trade balance (RM billion)	38.9	25.5	110.2	36.1

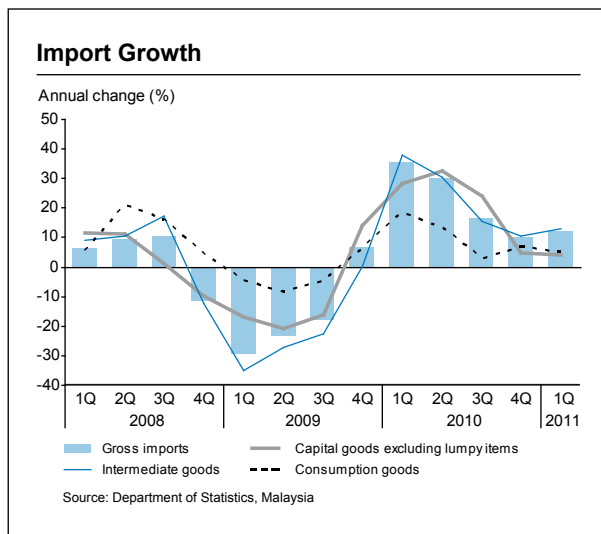
Source: MATRADE and Department of Statistics, Malaysia

Malaysia: Direction of Exports

	2010			2011	2010			2011
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	Annual change (%)				Share of total exports (%)			
United States	10.8	-11.0	0.2	-6.6	9.4	9.1	9.5	8.2
European Union (EU)	29.1	0.3	14.3	6.3	10.6	10.8	10.7	10.5
Selected ASEAN countries¹	39.1	1.9	14.0	-0.2	25.9	25.3	25.1	24.0
North East Asia	57.1	1.6	20.0	9.7	25.1	24.3	24.6	25.6
People's Republic of China	67.8	0.0	19.7	9.4	13.1	12.4	12.6	13.3
Hong Kong SAR	36.8	-0.7	11.8	10.0	4.9	5.0	5.1	5.0
Chinese Taipei	76.4	30.6	39.0	18.0	2.8	3.3	3.2	3.1
Korea	43.5	-8.8	19.1	4.9	4.3	3.6	3.8	4.2
West Asia	17.0	11.0	4.0	17.6	3.3	3.7	3.5	3.6
India	21.3	20.2	21.1	37.7	3.3	3.3	3.3	4.2
Total exports	34.5	3.4	15.7	7.5	100.0	100.0	100.0	100.0

¹Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia



FDI moderated while portfolio investment recorded a higher net inflow

On a cash basis, gross inflows of **foreign direct investment (FDI)*** amounted to RM7.8 billion in the first quarter following the exceptional volume of RM13 billion recorded in the fourth quarter of 2010. After adjusting for gross outflows due mainly to repayments of inter-company loans, net FDI was also lower at RM4.6 billion (4Q 10: +RM8.6 billion). Gross FDI inflows were broad-based, channelled mainly into the manufacturing, services and mining sectors. In the manufacturing sector, the bulk of the inflows went to electrical and electronics as well as petroleum-related industries. Investments in the services sector was mainly undertaken by companies in the finance, insurance, business services and wholesale and retail trade sub-sectors.

Net outflows of **direct investment abroad (DIA)*** by Malaysian companies amounted to RM3.8 billion in the first quarter (4Q 10: -RM3.9 billion), reflecting mainly lower outflows of equity capital which more than offset the larger net extension of inter-company loans to subsidiaries abroad. These investments were largely undertaken by companies in the services sector, particularly companies in the finance and insurance, business services and communications sub-sectors. There were also sizeable investments in the oil and gas as well as the manufacturing sectors.

Portfolio investment recorded a larger net inflow of RM4.7 billion in the first quarter (4Q 10: +RM3.3 billion). The higher inflows reflected stronger foreign participation in the domestic capital market, particularly the debt market.

Despite concerns on the geopolitical tension in the Middle East and Africa and the adverse impact of the recent disasters in Japan, inflows of foreign portfolio funds continued to be buoyed by the positive growth prospects in the Malaysian economy amidst further strengthening of the ringgit. This development was also broadly experienced in the regional economies.

External debt remained manageable

Malaysia's **total external debt** amounted to RM233.4 billion or USD77.1 billion as at end-March 2011 (end-Dec 2010: RM227.1 billion or USD72.8 billion), equivalent to 29% of GNI.

The **medium- and long-term external debt** moderated to RM142.4 billion (end-Dec 2010: RM147.7 billion), reflecting largely the net repayment position in the public sector. The net repayment position in the public sector was due mainly to the repayment of several large borrowings by the NFPEs. The medium- and long-term external debt of the private sector, however, recorded a marginal increase during the quarter reflecting mainly higher borrowings in the banking sector.

As at end-March 2011, the **short-term external debt** increased to RM91 billion or USD30.1 billion (end-Dec 2010: RM79.4 billion), due mainly to higher interbank borrowings. Short-term external debt accounted for 39% of total external debt. The latest international reserves position as at 29 April 2011 is able to cover 4.3 times the short-term external debt.

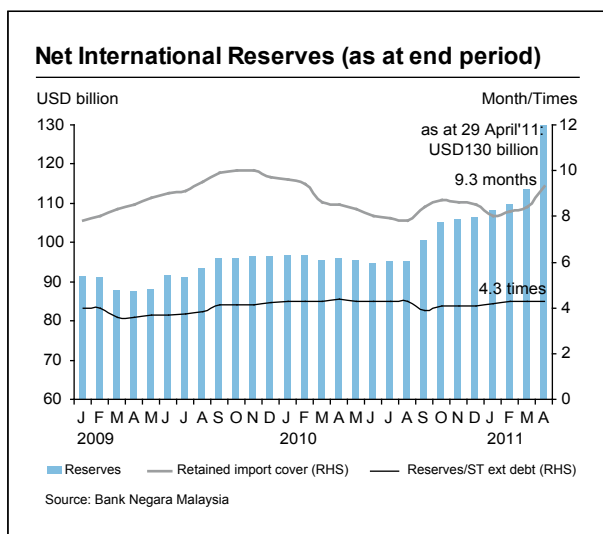
	2010		2011
	end-Mar	end-Dec	end-Mar ^a
	RM billion		
Medium- and long-term debt	147.2	147.7	142.4
Public sector	80.9	83.3	77.2
Private sector	66.3	64.3	65.1
Short-term debt ¹	72.1	79.4	91.0
Total external debt	219.3	227.1	233.4
USD billion equivalent	66.4	72.8	77.1
External debt/GNI	29.6	30.7	29.0
Reserves/Short-term external debt	4.3	4.1	4.3 ²

¹ Excludes currency and deposits held by non-residents with resident banking institutions
² Based on reserves as at 29 April 2011
^a Preliminary
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

* The statistics for FDI and DIA on a cash basis does not include retained earnings.

International reserves remained high

The international reserves of Bank Negara Malaysia amounted to RM344.5 billion (equivalent to USD113.8 billion) as at 31 March 2011. The reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 29 April 2011, the reserves position amounted to RM393.2 billion (equivalent to USD130 billion), sufficient to finance 9.3 months of retained imports and is 4.3 times the short-term external debt.



Lower fiscal deficit on higher revenue

The Federal Government recorded a smaller fiscal deficit of 2.6% of GDP in the first quarter of 2011 (1Q 10: -5.6% of GDP), due to higher revenue collection particularly from petroleum and corporate income taxes. Total expenditure increased moderately by 15%, contributed mainly by higher operating expenditure. The increase was due to higher payments for debt service and pensions. The deficit was financed from domestic sources. As at end-March 2011, total outstanding debt of the Federal Government amounted to RM430.2 billion or 51.8% of GDP.

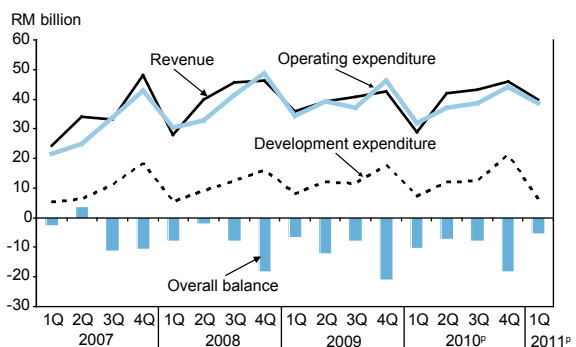
Federal Government Finance^P

	2010			2011
	1Q	4Q	Year	1Q
RM billion				
Revenue	28.7	45.8	159.7	39.8
% growth	-19.9	7.6	0.6	38.4
Operating expenditure	31.9	44.1	151.6	38.7
% growth	-7.1	-4.6	-3.5	21.2
Current account	-3.2	1.7	8.0	1.1
% of GDP	-1.7	0.8	1.0	0.5
Gross development expenditure	7.3	20.8	52.8	6.4
% growth	-11.4	18.6	6.6	-12.0
Overall balance	-10.2	-18.2	-43.3	-5.2
% of GDP	-5.6	-8.9	-5.6	-2.6
Memo item:				
Total gross expenditure	39.2	64.9	204.4	45.1
% growth	-8.0	1.8	-1.0	15.0
Total Federal Government debt (as at end-period)	378.3	407.1	407.1	430.2
% of GDP	49.4	53.1	53.1	51.8
Domestic debt	365.6	390.4	390.4	414.2
% of GDP	47.7	51.0	51.0	49.9
External debt	12.7	16.7	16.7	15.9
% of GDP	1.7	2.2	2.2	1.9

^P Preliminary

Source: Ministry of Finance

Federal Government Finance



^PPreliminary

Source: Ministry of Finance

MONETARY AND FINANCIAL DEVELOPMENTS

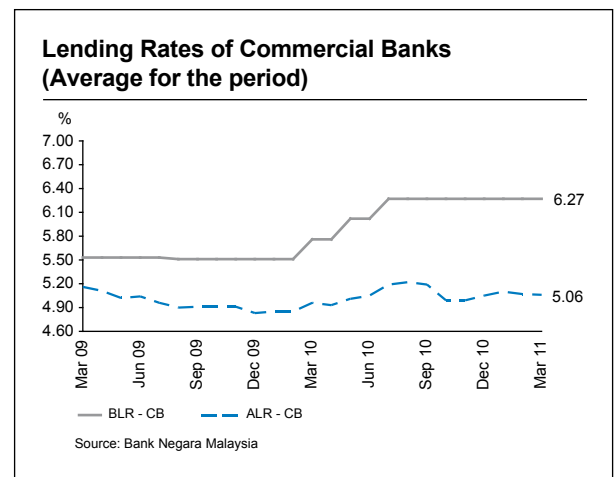
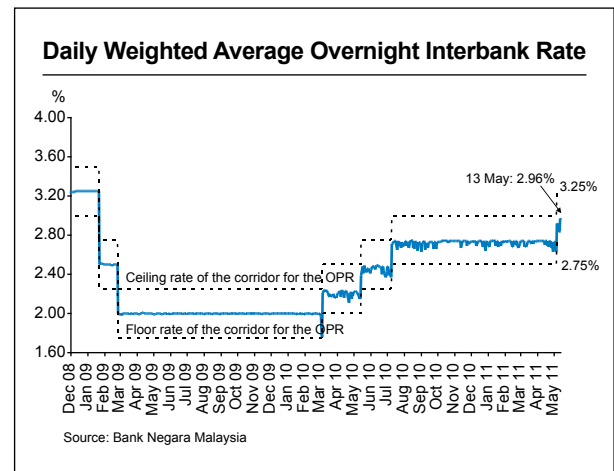
Interest rates remained stable

The OPR was left unchanged at 2.75% in the first quarter of 2011. On 5 May 2011, the Monetary Policy Committee (MPC) raised the OPR by 25 basis points to 3.00 percent to adjust the degree of monetary accommodation. At the current OPR level, the stance of monetary policy remains supportive of growth.

The average overnight interbank rate was stable, moving within a range of 2.67% to 2.75% during the period 1 January – 31 March 2011. Interbank rates of other maturities were also stable.

In terms of retail deposit rates, the average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-March, the average quoted FD rates for tenures between 1 to 12 months ranged between 2.71% to 2.98% respectively.

Retail lending rates were also stable during the quarter. The average base lending rate (BLR) of commercial banks (CBs) was unchanged at 6.27%. The average lending rate (ALR) on loans outstanding also remained stable at 5.06% (end-December: 5.05%).



Interest Rates	2010		2011
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	2.25	2.75	2.75
Interbank rates			
Overnight	2.18	2.72	2.74
1-month	2.35	2.83	2.79
Base lending rates (BLR)			
Commercial banks	5.76	6.27	6.27
Average lending rates (ALR)			
Commercial banks	4.96	5.05	5.06
Fixed deposit rates			
Commercial banks			
3-month	2.28	2.74	2.74
12-month	2.67	2.97	2.98

Source: Bank Negara Malaysia

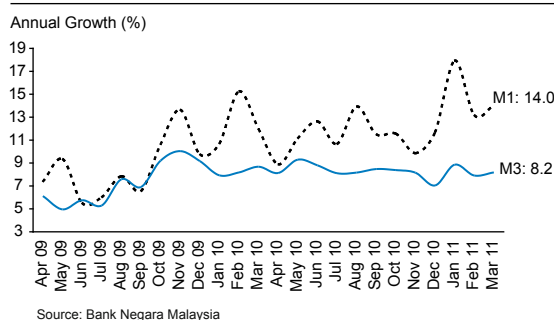
M3 continued to expand

Monetary aggregates continued to grow at a sustained pace in the first quarter of 2011. M1, or narrow money increased by RM28.2 billion during the quarter. On an annual basis, M1 expanded by 14% as at end-March 2011 (end-Dec 2010: 11.7%). M3, or broad money, expanded at a faster annual growth rate of 8.2% as at end-March (end-Dec 2010: 7.0%), and rose by RM27.3 billion from the previous quarter.

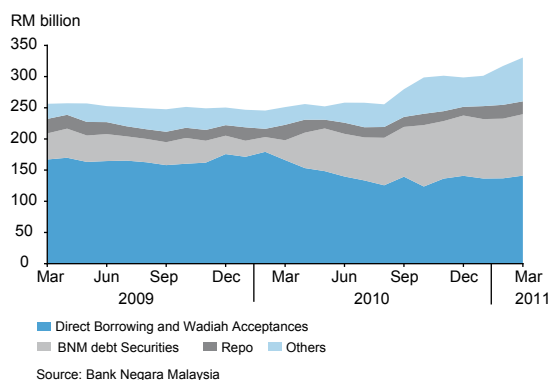
The increase in broad money during the quarter was underpinned mainly by net foreign inflows, reflecting higher portfolio inflows and the country's external trade surplus. Broad money also expanded due to higher credit extension to the private sector by the banking system. The private sector increased its holdings of Bank Negara Malaysia debt securities, which were purchased from the banking institutions. The drawdown of deposits to finance the purchase of these securities had a contractionary impact on M3, and was reflected under the other influences category of the monetary statistics.

The Bank raised the Statutory Reserve Requirement (SRR) ratio by 100 basis points in March and a further 100 basis points in May 2011. Large shifts in global liquidity had resulted in significant capital flows into emerging economies, including Malaysia. The decision to raise the SRR was, therefore, undertaken as a pre-emptive measure to manage the risk of a build-up in liquidity spurring excessive lending and risk taking, activities which could result in the accumulation of financial imbalances.

Monetary Aggregates



Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



Determinants of Broad Money, M3

	Change during the period			
	2010			2011
	1Q	4Q	Year	1Q
	RM billion			
M3	14.5	30.5	71.7	27.3
Net claims on Govt	-2.4	-3.4	-8.1	-3.7
Claims on private sector	16.7	29.1	84.9	22.9
Loans	19.7	28.6	92.0	26.5
Securities	-3.1	0.5	-7.1	-3.7
Net foreign assets ¹	11.6	15.9	64.3	25.2
BNM	1.3	17.1	30.8	15.8
Banking System	10.3	-1.2	33.6	9.3
Other influences	-11.4	-11.2	-69.4	-17.0

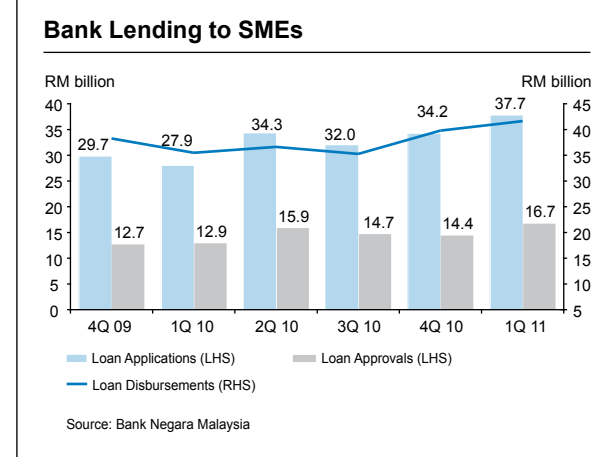
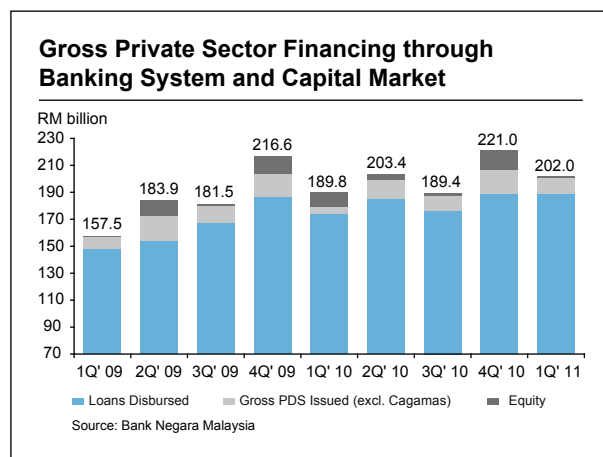
¹ Pre-revaluation

Source: Bank Negara Malaysia

Private sector financing activity remained robust in the first quarter

In the first quarter, financing conditions remained supportive of economic activity. The continued access to financing, reasonably low cost of borrowing and ample liquidity in the financial system supported the demand

for financing by the private sector. Total gross financing raised by the private sector through the banking system and the capital market was sustained at RM202 billion in the first quarter (4Q 10: RM221 billion). On a net basis, banking system loans and PDS outstanding rose by an annual rate of 12.5% as at end-March (4Q 10: 11.3%).



Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)			
	1Q 10	4Q 10	2010	1Q 11	1Q 10	4Q 10	2010	1Q 11
Gross total financing	189.8	221.0	803.6	202.0	20.5	2.1	8.7	6.4
Loans disbursed	174.3	188.9	724.6	188.6	17.6	1.0	10.2	8.2
Gross PDS (excl. Cagamas)	4.4	17.4	46.9	12.2	-50.8	5.9	-16.4	174.8
Equity	11.0	14.7	32.1	1.1	7,530.8	12.0	23.4	-89.9
Net total financing (A)+(B)	18.6	37.8	120.5	33.4	9.4	11.3	11.3	12.5
Banking system	19.3	29.5	101.0	25.9	8.5	11.9	11.9	12.4
Loans outstanding (A)	22.0	29.1	99.8	28.8	9.8	12.7	12.7	13.2
Holding of PDS	-2.9	0.4	1.2	-2.9	-6.5	2.0	2.0	2.1
PDS outstanding (B)	-3.6	8.7	20.8	4.6	8.4	7.4	7.4	10.5
Memorandum item								
Gross PDS (incl. Cagamas)	4.7	18.3	52.1	12.2	-49.5	11.4	-11.0	161.3

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	1Q 10	4Q 10	2010	1Q 11	1Q 10	4Q 10	2010	1Q 11
Total								
Loan applications	132.9	173.5	641.3	168.5	23.5	22.9	23.0	26.8
Loan approvals	70.1	91.8	343.4	87.6	20.8	14.1	19.7	25.0
Loan disbursements	174.3	188.9	724.6	188.6	17.6	1.0	10.2	8.2
Loan repayments	154.5	167.9	649.3	168.1	11.8	3.4	9.1	8.8
Change in loans outstanding*	22.2	29.1	99.8	28.8	9.8	12.7	12.7	13.2
Of which:								
Business enterprises**								
Loan applications	60.0	82.1	298.4	79.6	15.3	34.1	25.5	32.6
Loan approvals	29.3	43.4	159.3	38.9	12.2	17.0	24.7	32.8
Loan disbursements	117.2	124.6	483.2	122.1	16.1	-1.2	9.8	4.2
Loan repayments	105.3	113.0	443.1	109.8	12.4	0.2	8.8	4.3
Change in loans outstanding*	5.9	13.4	28.5	11.3	5.4	9.4	9.4	10.9
SMEs**								
Loan applications	27.9	34.2	128.3	37.7	38.1	14.9	22.7	35.0
Loan approvals	12.9	14.4	57.8	16.4	45.6	13.5	27.7	27.3
Loan disbursements	35.5	39.8	147.2	41.6	2.3	4.0	2.7	17.3
Loan repayments	33.4	37.4	137.2	37.2	3.6	7.3	3.8	11.4
Change in loans outstanding*	3.4	3.5	3.0	3.4	9.1	2.4	2.4	2.4
Large corporations								
Loan applications	32.1	47.9	170.1	41.9	0.8	52.3	27.7	30.5
Loan approvals	16.4	29.0	101.5	22.2	-5.0	18.9	23.1	37.1
Loan disbursements	81.7	84.8	336.0	80.4	23.4	-3.4	13.2	-1.5
Loan repayments	71.8	75.6	306.0	72.6	17.1	-3.0	11.2	1.1
Change in loans outstanding*	2.5	18.1	25.5	7.9	3.0	14.2	14.2	17.0
Households								
Loan applications	72.8	91.4	342.9	88.9	31.3	14.3	20.9	22.0
Loan approvals	40.8	48.3	184.1	48.8	27.8	11.5	15.6	19.4
Loan disbursements	57.2	64.3	241.4	66.6	20.6	5.6	11.1	16.4
Loan repayments	49.3	54.9	206.2	58.3	10.6	10.6	9.8	18.4
Change in loans outstanding*	13.8	14.2	57.9	14.8	11.7	13.4	13.4	13.2

* The annual growth is for end-period.
** Include loans to individual businesses.

Source: Bank Negara Malaysia

The major loan indicators remained strong in the first quarter. Although loan applications and approvals moderated in February due to fewer working days on account of the Chinese New Year festivities, there was a significant rebound in March. In the business sector, higher loan disbursements reflected mainly the increase in working capital needs of firms in the *manufacturing; agriculture and wholesale and retail, restaurants and hotels* sectors. Demand for new financing was sustained at high levels with higher applications from the *finance, insurance and business services; education, health and others; real estate and*

manufacturing sectors. On an annual basis, business loans outstanding expanded at 10.9% as at end-March (4Q 10: 9.4%).

Similarly, financing to the household sector remained robust. Demand for loans was mainly for the *purchase of securities, passenger cars and personal use*. Loan disbursements to households also increased during the quarter. Accordingly, household loans outstanding expanded by RM14.8 billion during the quarter to increase at an annual growth rate of 13.2% as at end-March (4Q 10: 13.4%).

Loans by Sector

	Loans disbursed				Loans out-standing	
	During the period			Share of total	Share of total	
	1Q 10	4Q 10	2010	1Q 11		
	(RM billion)			(%)		
Business enterprises	117.2	124.6	483.2	122.1	64.7	44.7
<i>Large corporations</i>	81.7	84.8	336.0	80.4	42.6	30.3
<i>SMEs*</i>	35.5	39.8	147.2	41.6	22.1	14.4
<i>Selected sectors</i>						
Agriculture, hunting, forestry and fishing	9.2	5.3	24.6	5.6	3.0	2.2
Mining and quarrying	0.8	1.2	3.5	1.1	0.6	0.4
Manufacturing	33.4	36.8	144.0	41.2	21.9	9.5
Construction	9.2	11.9	42.8	10.3	5.4	4.2
Real estate	5.2	7.5	23.7	6.4	3.4	4.4
Electricity, gas and water supply	0.8	2.6	5.3	1.5	0.8	1.4
Wholesale, retail, restaurants and hotels	28.0	30.9	122.8	30.8	16.3	7.3
Transport, storage and communication	5.4	4.3	19.7	4.4	2.3	2.9
Finance, insurance and business services	13.5	17.8	59.5	14.9	7.9	7.3
Households	57.2	64.3	241.4	66.6	35.3	55.3
Purchase of residential properties	14.9	15.1	57.8	15.0	8.0	25.5
Consumption credit	33.4	39.9	149.4	40.1	21.3	20.4
Of which:						
<i>Credit cards</i>	18.4	23.4	83.1	23.3	12.3	3.2
<i>Purchase of passenger cars</i>	8.8	9.1	37.2	8.9	4.7	12.3
Others	8.9	9.3	34.1	11.4	6.1	9.4
Total	174.3	188.9	724.6	188.6	100.0	100.0

*Include loans to individual businesses.

Source: Bank Negara Malaysia

Fund raising in the capital market remained strong

Net funds raised in the capital market amounted to RM29.7 billion during the quarter (4Q 10: RM30.5 billion). The bulk of the funds were raised by the public sector (RM24.6 billion) through the issuance of 10.5-year and 3.5-year Malaysian Government Securities (MGS) and a 7.5-year and 3.5-year Government Investment Issues (GII), as well as the re-opening of a 5.5-year MGS.

In the private sector, fund-raising activity was concentrated in the bond market. Gross funds raised through private debt securities (PDS) issuances remained healthy at RM12.2 billion (4Q 10: RM18.3 billion). Issuances came mainly from firms in the finance and utilities sectors, and a Special Purpose Vehicle (SPV) of the Government. As with the previous quarter, the funds were mainly used for refinancing and other purposes. After adjusting for redemptions, net funds raised through debt securities amounted to RM4.0

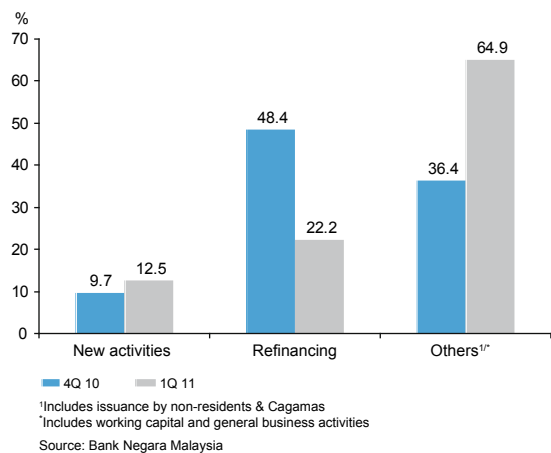
billion (4Q 10: RM8.7 billion). Meanwhile, funds raised from the equity market amounted to RM1.1 billion. Funds were raised through both initial public offerings and rights issues. Overall, net funds raised in the private sector totaled RM5.1 billion in the first quarter.

Net Funds Raised in the Capital Market

	2010			2011
	1Q	4Q	Year	1Q
	RM billion			
By Public Sector	15.5	7.1	37.0	24.6
Government securities, <i>net</i>	15.6	7.1	34.9	24.6
<i>Malaysian Government Securities</i>	12.6	6.6	37.7	15.1
<i>Government Investment Issues</i>	6.5	3.0	21.0	9.5
<i>Less: Redemptions</i>	3.5	2.5	23.9	-
Khazanah Bonds, <i>net</i>	-	-	-	-
Savings Bonds, <i>net</i>	(0.1)	(0.1)	2.2	(0.1)
By Private Sector	7.1	23.4	50.5	5.1
Shares	11.0	14.7	32.1	1.1
Debt securities, <i>net</i>	(3.9)	8.7	18.4	4.0
<i>Private Debt Securities</i>	4.7	18.3	52.1	12.2
<i>Less: Redemptions</i>	8.6	9.6	33.8	8.2
Total	22.6	30.5	87.5	29.7

Source: Bank Negara Malaysia and Bursa Malaysia

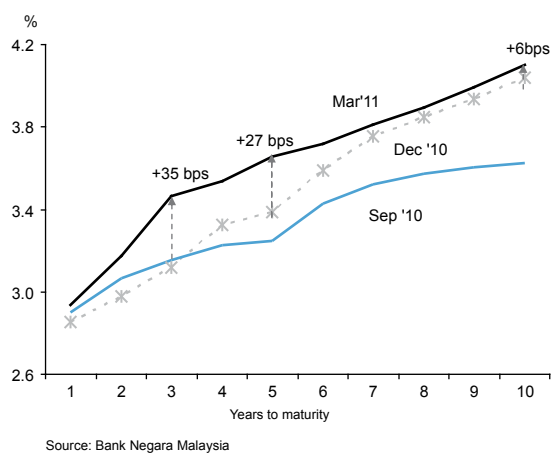
Private Debt Securities Issued by Purpose (% of total)



Yields increased on account of higher inflation and expectations for a policy rate adjustment

MGS yields trended upwards in the first quarter, due mainly to higher inflationary expectations due to the rising global food and fuel prices. Towards the end of the quarter, there was also additional upward pressure on yields caused by expectations among market players of an imminent adjustment in the OPR. The increase was across the board, with the benchmark 3-year, 5-year and 10-year MGS recording an increase of 35, 27 and 6 basis points respectively.

Trend in MGS Yields

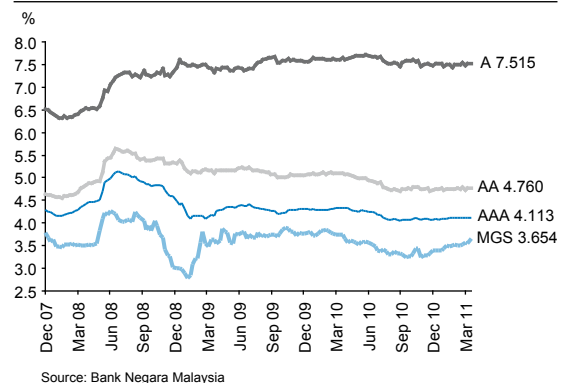


In the PDS market, corporate bond yields also increased in line with the increase in benchmark yields. The 5-year AAA-rated and AA-rated papers recorded increases of 3.9 and 1.2 basis points respectively. The 5-year A-rated paper, however, declined slightly by 1.5 basis points, reflecting improved credit conditions in the lower segment of the PDS market due to improved outlook for the economy.

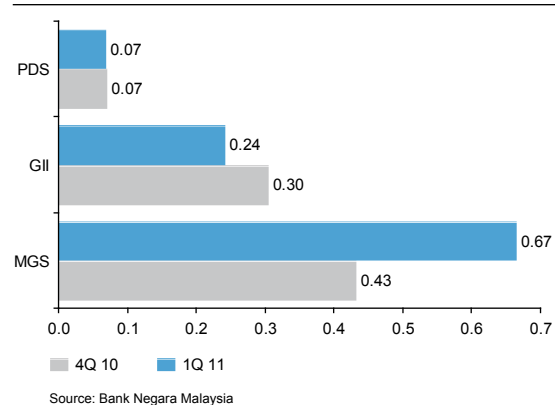
Secondary trading in the bond market increased

Total trading in the secondary market increased significantly to RM222 billion during the quarter (4Q 10: RM158 billion). Trading was most active along the MGS segment, with an improved liquidity ratio of 0.67 (4Q 10: 0.43). Elsewhere, the liquidity ratio for the PDS segment was unchanged at 0.07, while the ratio for the GII segment declined to 0.24.

5-year MGS and 5-year Corporate Bond Yields



Liquidity Ratio: Turnover / Outstanding

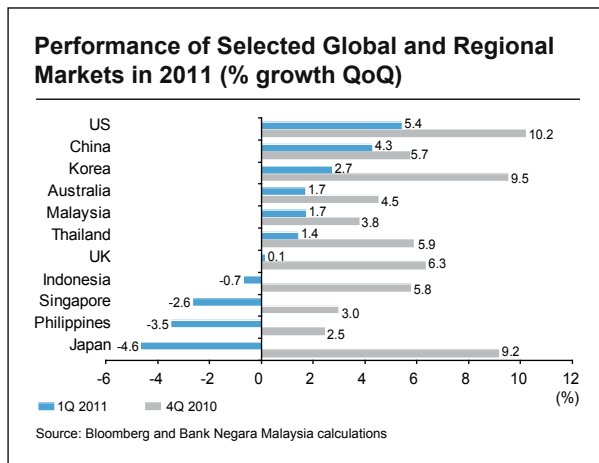


KLCI continued its rise

The FBM KLCI rose by 26.2 points to end the first quarter at 1,545.1 (end-4Q 10: 1518.9). The KLCI's performance in the first quarter, however, was not as strong as in the previous quarter (+1.7% vs. +3.8%), reflecting trends broadly similar to trends in the global and regional markets due to higher risk aversion caused by unrest in the Middle East and North Africa region and the earthquake in Japan. Nevertheless, optimism in the domestic market was supported by positive economic data as well as the announcement of the planned implementation of the Entry Point Projects (EPP). In addition, strong US corporate

earnings also helped lift investor sentiments globally. Market capitalisation increased to RM1.31 trillion at end-March 2011 (4Q 10: RM1.28 trillion), while the daily average turnover increased substantially to 1.73 billion units (4Q 10: 1.28 billion units) during the quarter.

On 13 May 2011, the KLCI closed higher at 1,540.7 points (since end-2010: +1.4%) with market capitalisation of RM1.30 trillion (since end-2010: +2.9%).



Bursa Malaysia: Selected Market Indicators

	2010			2011
	As at end			
	Mar	Dec	Year	Mar
Price Indices				
Composite	1,320.6	1,518.9	1,518.9	1,545.1
FBMEMAS ¹	8,957.2	10,375.0	10,375.0	10,612.5
FTSE Second Board ²	-	-	-	-
ACE Market ³	4,209.0	4,347.6	4,347.6	4,333.5
Market capitalisation (RM billion)	1,061.1	1,275.3	1,275.3	1,311.0
No. of companies listed	961	957	957	954
	During the quarter			
	1Q	4Q	Year	1Q
Average daily turnover				
Volume (million units)	1,046.6	1,276.5	1,021.2	1,730.1
Value (RM million)	1,532.4	2,002.5	1,573.9	2,233.9

¹FBMEMAS stands for FTSE Bursa Malaysia EMAS Index

²From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market

³From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2010						2011	
	1Q		4Q		Year		1Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	61.7	90.4	79.1	124.2	266.0	413.0	102.1	131.8
Of which:								
Main Board	52.4	88.1	65.7	121.1	225.5	403.0	84.1	128.4
Of which								
Consumer Products	2.8	3.7	3.6	5.5	15.3	19.3	4.0	5.4
Industrial Products	12.4	14.1	15.4	22.7	47.6	58.9	18.8	21.2
Construction	3.1	4.9	4.5	8.7	16.4	29.0	4.6	9.0
Trading/Services	16.1	28.8	19.3	40.0	68.2	140.2	33.5	46.2
Finance	4.2	20.8	4.6	22.7	17.7	86.2	4.4	24.6
Properties	6.4	3.9	11.5	8.8	33.1	21.6	12.8	9.6
Plantations	1.5	6.4	2.3	7.9	6.1	25.5	12.4	8.2
Infrastructure	1.1	1.7	1.7	2.4	5.8	8.9	1.1	2.4
Second Board ¹	-	-	-	-	-	-	-	-
Mesdaq ²	5.4	1.2	5.6	1.3	20.3	3.9	8.3	1.2

¹From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market

²From 3 August 2009, Mesdaq market was replaced with ACE Market

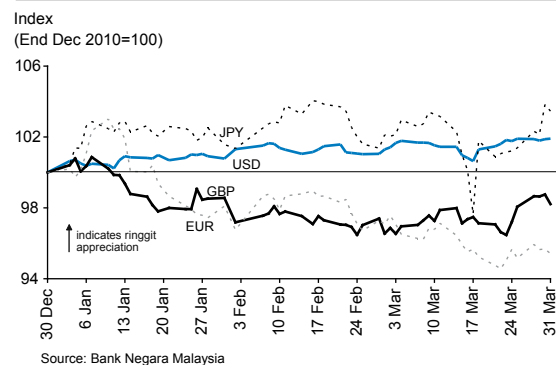
Source: Bursa Malaysia

Mixed performance of the ringgit against major currencies

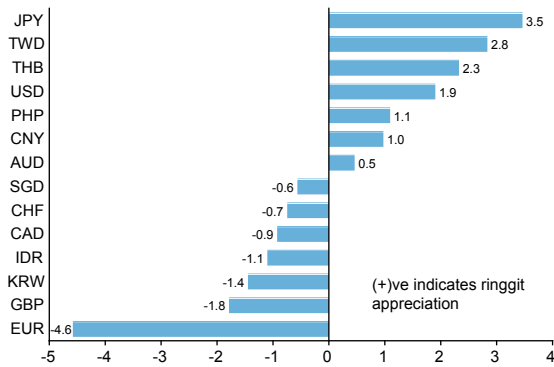
For the quarter as a whole, the ringgit appreciated by 1.9% against the US dollar. The positive growth outlook in Asia relative to the developed economies boosted investors' interest in the regional economies, providing continued support to the ringgit and other regional currencies. Malaysia's better-than-expected GDP growth in the fourth quarter also provided the impetus for the ringgit's strength. Against other major currencies, the ringgit strengthened against the Japanese yen (3.5%) but depreciated against the euro (-4.6%) and pound sterling (-1.8%). The ringgit initially strengthened against the Japanese yen as a result of the earthquake that hit Japan on 11 March 2011, but subsequently reversed its trend following the G7's announcement of joint intervention to stabilise the Japanese yen. The euro

strengthened against most currencies during the quarter due to the anticipation of an interest rate hike by the European Central Bank. Against regional currencies, the ringgit appreciated against the Thai baht (2.3%), the Philippine peso (1.1%) and the Chinese renminbi (1.0%), but depreciated against the Korean won (-1.4%), the Indonesian rupiah (-1.1%) and the Singapore dollar (-0.6%).

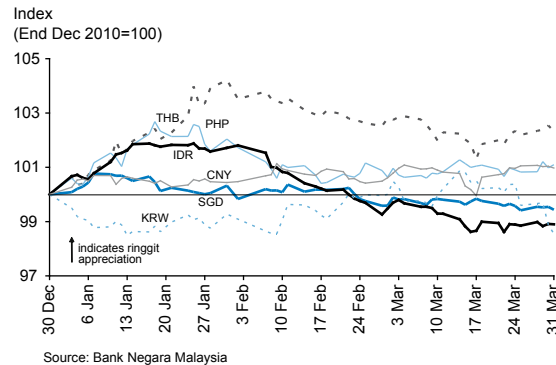
Ringgit Performance Against Major Currencies



Summary of Ringgit Performance Against Selected Currencies Percent Change (1 January - 31 March 2011)



Ringgit Performance Against Regional Currencies



During the period between 1 April to 16 May 2011, the ringgit depreciated by 0.4% against the US dollar. The ringgit also depreciated against the Japanese yen (-2.4%), the euro (-0.1%) and the pound sterling (-0.9%). Within

the region, the ringgit depreciated in the range of -0.4% to -2.0% as factors specific to other countries led to faster appreciation of their currencies relative to the ringgit.

Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	1Q 10	4Q 10	1Q 11	21 Jul 05	1Q 10	4Q 10
US dollar	3.8000	3.2730	3.0835	3.0259	25.6	8.2	1.9
Euro	4.6212	4.3850	4.0804	4.2762	8.1	2.5	-4.6
Pound sterling	6.6270	4.9326	4.7817	4.8687	36.1	1.3	-1.8
100 Japanese yen	3.3745	3.5017	3.7869	3.6602	-7.8	-4.3	3.5
Singapore dollar	2.2570	2.3354	2.3859	2.3994	-5.9	-2.7	-0.6
100 Thai baht	9.0681	10.111	10.227	9.9947	-9.3	1.2	2.3
100 Philippine peso	6.8131	7.2236	7.0400	6.9637	-2.2	3.7	1.1
100 Indonesian rupiah	0.0386	0.0359	0.0344	0.0347	11.2	3.4	-1.1
100 Korean won	0.3665	0.2889	0.2707	0.2747	33.4	5.2	-1.4
Chinese renminbi	0.4591	0.4795	0.4662	0.4617	-0.6	3.9	1.0

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.

Source: Bank Negara Malaysia

MANAGING RISKS TO FINANCIAL STABILITY

Financial stability continued to be preserved

A resilient financial sector and the orderly functioning of the financial markets continued to support financial intermediation activities in the domestic economy. To ensure continued soundness of the household sector and the stability of the financial system, the Bank introduced a number of policy measures during the quarter. These pre-emptive measures include the issuance of a new Credit Card Guideline, proposals to promote responsible lending practices by financial institutions for retail financing and raising the capital charges on housing loans where the loan-to-value (LTV) ratio exceeds 90% and for longer-tenured personal financing. These initiatives are also complemented with a targeted financial education programme introduced for young and first time borrowers on financial management.

Risks to financial stability remained low. Overall credit risk exposures of the financial sector remained manageable. Both loan impairment and loans that are in arrears remained stable at 2.2% of net loans (4Q 10: 2.3%) and 3.2% of gross loans (4Q 10: 3.4%) respectively. Households' debt servicing capacity remained intact with the household debt-to-GDP at 76.4%. Impairment levels registered a slight improvement to 2.2% of household loans (4Q 10: 2.3%). The level of debt repayments of households was 53% (4Q 10: 47.8%) of income.

Improved business conditions during the quarter had spurred further expansion in

credit as businesses gradually increased capital expenditures to improve their productive capacity. Despite a slight increase in the median Expected Default Frequency from 0.61% to 0.64% in the first quarter due mainly to higher cost of production, the debt-servicing capacity of businesses remained strong supported by steady growth in business revenue. The ratio of repayment-to-disbursement remained stable at 90%, whilst the gross impaired loans ratio improved to 4.9% (4Q 10: 5.2%). The credit risk outlook for businesses is expected to be positive underpinned primarily by the continued robust domestic demand.

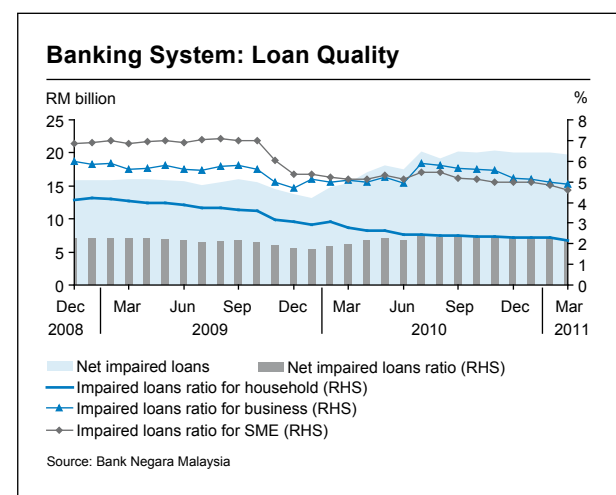
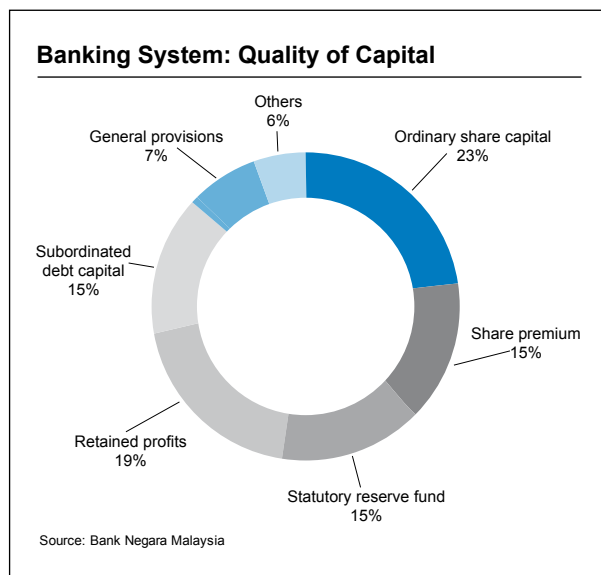
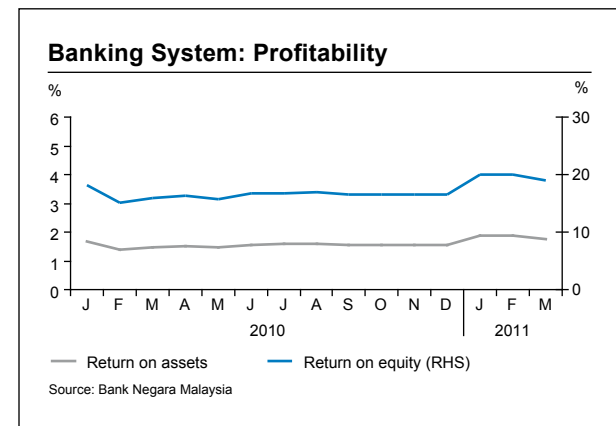
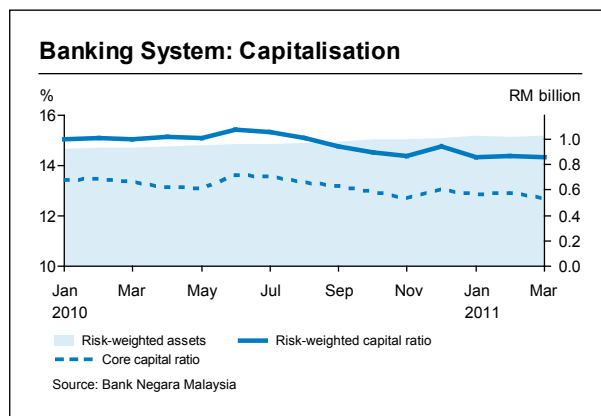
Higher volatility in equity market arising from external developments and the rise in MGS yields on inflationary concerns has had negligible effects on the financial sector. Despite these uncertainties, the domestic financial markets have remained orderly with sustained capacity to intermediate the increased volume and volatility of financial flows.

While the financial system continued to be the recipient of net inflows of portfolio investments, further magnifying the ample liquidity environment, there has not been evidence of material changes in the risk-taking behaviours of financial institutions. The banking system's exposure to equity risk remained small at 1.3% of capital base as at end-March (4Q 10: 1.2%), whilst insurance and takaful sector's exposures to equity risk remained at 7.3% of capital base. Meanwhile, interest rate risk remained small at 4.3% of capital base (4Q 10: 4.9%) for the banks

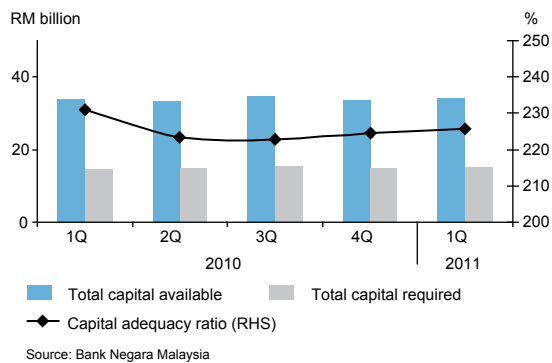
and 3.3% (4Q 10: 3.3%) for the insurance and takaful sector. Given the expectation of continued inflows of portfolio funds into the country, the consequent build-up of liquidity in the domestic financial system, if not managed carefully, could create risks to macroeconomic and financial stability. The Bank, as a pre-emptive measure, raised the Statutory Reserve Requirement (SRR) ratio by 100 basis points in March and a further 100 basis points to 3 percent in May 2011 to manage the build-up of liquidity, which may result in financial imbalances and create risks to financial stability.

The financial sector remained resilient, providing firm support for financial intermediation of domestic economic activities

Banking sector capitalisation remained at a very comfortable level. Common equity and reserves continued to account for the bulk of banking sector capital funds. Core capital ratio and risk-weighted capital ratio remained strong at 12.7% and 14.3% respectively. Capital buffers were sustained in excess of RM60 billion. The insurance and takaful sector demonstrated similar resilience. Capitalisation was strong as reflected by the capital adequacy ratio of 225.7% and excess capital of RM19.1 billion. About 91% of capital comprised high quality Tier-1 capital.



Insurance Sector: Capital Adequacy Ratio

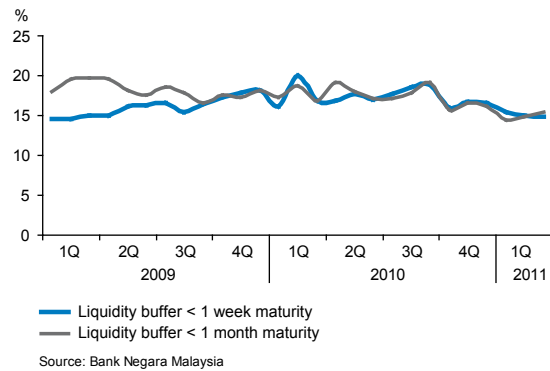


Banks' pre-tax profits for the quarter amounted to RM6.9 billion (4Q 10: RM5.7 billion) on lower loan loss provisions and substantially higher gains on trading and investment portfolios. Consequently, average returns on assets and equity improved to 1.8% (4Q 10: 1.5%) and 18.9% (4Q 10: 16.6%) respectively. Underwriting profit for insurers decreased marginally by 6.3% to RM280.9 million, due to lower investment income and moderating overall claims incurred. Claims for the motor segment nonetheless continued to remain high at 73% in the first quarter. Operating profit for general insurance and general takaful moderated due to higher motor claims. The strong equity market performance continuing from 2010 spurred further growth in the investment-linked products of both life and family takaful businesses. Coupled with moderating investment income

and investment gains, excess of income over outgo for life insurance and family takaful rose to RM3.2 billion (1Q 10: RM2.9 billion).

Liquidity remained ample to meet demands for deposit withdrawals and other liquidity obligations.

Banking System: Liquidity Buffer to Total Deposit Ratio



Insurance and Takaful Sector: Indicators

	2010			2011
	1Q	4Q	Year	1Q
RM million				
Life insurance & family takaful				
Excess of income over outgo	2,903.5	3,155.3	14,099.5	3,140.8
General insurance & general takaful				
Operating profit	524.9	559.9	2,167.9	516.6
Claims ratio (%)	62.8	62.2	62.2	61.4

Source: Bank Negara Malaysia

**FSI-EMEAP High Level Meeting Dinner:
“Better Supervision and Better Banking in a Post Crisis Era”
Kuala Lumpur, 16 January 2011**

Welcoming Address by

Tan Sri Dato’ Sri Dr. Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

It is my pleasure to welcome you to this Financial Stability Institute (FSI) EMEAP high level meeting for Banking Supervisors. Bank Negara Malaysia is honoured to host this event that brings together senior officials from the regulatory community, as well as, the leadership from the banking industry from the Asian region to discuss Supervision and Banking in this post crisis era.

We are now in a period of profound and fundamental change for the industry and for regulators and supervisors. The issuance of the final reform package by the Basel Committee in December 2010 marks the completion of a key milestone in the international financial reform process that began in the aftermath of the global financial crisis. This process has been complex, involving multiple tracks of intense dialogue taking place, both at the international and regional levels. The journey towards building a more resilient international financial system, however, is far from over.

For this set of reforms that have been issued by the Basel Committee, the next phase involving the implementation will be equally challenging. There is already great anticipation on how the new standards would be phased in, and its impact on the financial sector landscape. Of importance, is ensuring that the implementation of the regulatory reforms does not impair the ongoing economic recovery process. Further, while major agreement has been reached on the key components concerning capital and liquidity, a number of other significant areas still remain largely work in progress. Against this backdrop, it is important that policy makers and the financial industry maintain a continued open and constructive dialogue on developments affecting the industry, in particular, to avoid any unintended consequences from these reforms.

Economic outlook

We are now entering the second year of global recovery. The rebound in 2010 has been largely led by the exceptional performance of the emerging economies, in particular, in Asia. Growth is expected to remain strong this year, although at a more moderate pace compared to 2010. Amid favourable growth prospects, Asia will however have to manage the impact of international developments given its high degree of economic and financial openness. The global attention is currently focused on the fiscal conditions of several of the advanced economies, the progress in the financial reforms and on the monetary and financial measures being implemented in the crisis affected economies. A major challenge for most emerging economies in 2011 will be the management of the highly volatile capital flows. The strong growth in Asia has and will continue to attract this massive increase in global liquidity in the form of capital inflows into the region. This calls for greater vigilance on the part of the policymakers in the region. Several regional economies have already implemented measures including macro prudential measures to preserve macroeconomic and financial stability.

Against the backdrop of continuing uncertainties, Asia is expected to continue to lead global growth, supported by strong macroeconomic fundamentals and sound financial systems. The revival of private sector economic activity has been an important factor in sustaining the strong growth prospects in Asia. On the domestic front, the Malaysian economy is set to register a growth in the region of 7% for 2010. While the external sector may be affected by the slower global growth, the growth momentum of domestic demand is projected to be sustained in 2011, supported by the continued firm expansion in private

sector activity. Most encouraging is that private investment is expected to strengthen and become an important contributor to the growth.

Achieving financial stability objectives

Let me now turn to the efforts to achieve greater financial stability. While there is still much work to be accomplished at the international level, an immediate priority ahead is to achieve effective and well coordinated approaches to the implementation of the announced financial reforms. This is important given the greater inter linkages in the global economy. While the outcome of the quantitative impact studies have predicted that the long term benefits of the measures will outweigh the short term costs arising from the adjustments, actual experiences are likely to vary across different jurisdictions.

While individual jurisdictions may be confronted with specific challenges of implementation that may arise from differences in economic and market structures, there is also much in common, particularly among emerging economies, that can be shared among jurisdictions. The period of observation on some of the components of the reform package provided by the Basel Committee is welcomed. It will allow jurisdictions to consider appropriate actions needed to support the effective implementation of the reforms. At the same time, there is an expectation that there will be a willingness by the international standard setting community to adjust or otherwise supplement current prescriptions, frameworks or implementation strategies as more experience is gained under changing market conditions. The effective implementation would also require support for the implementation of the reforms, particularly in the area of capacity building, particularly in the emerging and developing world. Inclusive communication channels with the market and an inclusive process of global consultations will allow us to benefit from the experience of others and, more importantly, facilitate more coordinated policy responses and thus support the orderly adjustments to the new standards.

While the evolution of financial stability policies over the recent two years has seen clearer mandates being established for the regulatory authorities, the framework for financial stability both at the national and international levels continue to be a subject of intense discussion. The focus has been on the efficacy of policy instruments needed to preserve financial stability, the structure and design of decision making frameworks and the institutional arrangements and accountabilities in regard to financial stability policies. An important part of this is that, with the accountabilities, is the need to have broad range of instruments and the policy space and flexibilities to achieve the specific financial stability policy objectives. In addition to this, for many emerging economies, an important mandate is also to develop the financial system. For most Central Banks in emerging economies, this developmental role is integral to maintaining the orderly development of the financial system and hence financial stability over the longer term.

Intensified supervision and strengthened governance

The global financial crisis has also prompted a renewal and further strengthening of supervisory approaches, and intensified efforts to deepen supervisory cooperation across borders. This reflects the growing significance of internationally and regionally active financial institutions. Although the risk based supervisory approach is already adopted in many countries and provides the framework for enhanced risk assessments with more informed supervisory judgments, the methods used to determine supervisory intensity may need to be regularly re examined given the continuous pace of financial innovation and changing market conditions.

As more jurisdictions move to adopt more principle or outcome based approaches to regulation, ensuring rigorous and proportionate supervision, will become increasingly important to ensure prudent risk taking in the financial system. While compliance will remain important, the nature and intensity of supervisory relations with financial institutions are already seeing a

more prominent shift towards more open and engaging interactions that allow both supervisors and financial institutions to develop a more complete understanding of risks confronting the institutions and industry as a whole. This also supports current efforts to strengthen the macro prudential orientation to risk management, both at the system and institution level whereby the assessment of institutional risks is complemented by considerations of macroeconomic developments and collective market behaviors that can have a significant impact on financial stability.

The reform measures to enhance the resilience of financial institutions and the supervisory capabilities to identify and assess risks at the macro level are also being reinforced with efforts to strengthen the caliber of the boards and senior management of the financial institutions. In Malaysia, our commitment towards enhancing the performance of boards of financial institution has not only been through the issuance of supervisory guidance, but also with the introduction of a rigorous Education Programme for Directors that was launched in 2008. Beginning this year, this programme is open to directors of financial institutions outside Malaysia. In drawing from the many lessons from the Asian financial crisis and this recent global financial crisis, nurturing of a strong risk culture and ethical workforce within the financial industry is absolutely fundamental to our efforts to promote financial stability and the need for this to start with the board and management of financial institutions.

In the wake of the crisis, greater expectations are being placed on the board and senior management to have more effective leadership and oversight roles. These expectations have in certain jurisdictions been translated into responses that have included intrusive approaches to appointments of directors and key personnel of financial institutions, while at the international level it has resulted in substantial enhancements to existing international supervisory standards on corporate governance. In the process, we are seeing renewed debate and dialogue on how fundamental precepts of governance should be

best operationalised to achieve their substance over form, including the notion of separation between oversight and management, the determination of the relevant board competencies in today's environment and the appropriate role of the board, the management and the supervisor in reinforcing sound governance practices. It is thus important for a continuous process of renewal of established practices to preserve the foundation for financial stability.

Scope for greater collaboration

In a world that is highly interconnected, the scope for supervisory cooperation and collaboration for the effective conduct of financial stability policies is now already expanding. The regional cooperation among central banks and supervisory agencies in Asia itself has advanced in many areas, particularly in the aftermath of the Asian Financial crisis. The focus of cooperation has gone beyond the traditional areas of financial stability, financial markets and payment and settlement systems to cover the more technical policies and the forward looking issues. Despite this notable progress, there remains opportunities to leverage more on existing platforms to address more recent challenges pertaining to cross border issues such as regulatory arbitrage, facilitating financial integration, and establishing a more robust framework for regional macro surveillance and crisis management.

The global crisis experience also offers important insights that could further deepen our understanding and cement cooperation in the area of cross border resolution of problem institutions. The ongoing efforts in Europe to implement "living wills" would be of significant interest to this region, from the perspective of their construction as well as implementation. While these approaches are still untested, this exercise will make an important contribution to deepen our understanding on the relevance of business models and the different regulatory structures and legal systems that have an important bearing on the operations of significant institutions with cross border operations.

Moving forward, more experience is still to be gained in regard to effective financial stability communication strategy, an element that has not received much attention until the recent crisis. Credible financial stability communication strategies, particularly during periods of heightened uncertainties will require appropriate timing and delivery as well as effective coordination among relevant agencies. The effective coordination of announcements on the blanket government guarantee and liquidity measures in Malaysia, Singapore and Hong Kong during the recent crisis for instance, had helped sustained the overall confidence in our financial markets. Similarly, there are also lessons to be learned in regard to the experience in the communication of supervisory stress test results in Europe and the United States.

Conclusion

Given the dynamics of the financial markets today, more effective engagements between policy makers and the industry, both within and across borders have never been more important so as to bring about a greater awareness of key financial stability issues, to further sharpen supervisory and management judgements and to promote greater collaboration on multiple fronts. Enhanced prospects for greater global financial stability depend on a sustained commitment to these priorities. Ultimately, the goal is to strengthen our collective ability to anticipate and respond effectively to developments that affect financial stability, not just in these present challenging times, but through what will likely be an extended period of global adjustments going forward.

Launch of Bloomberg's Enhanced Islamic Finance Platform Kuala Lumpur, 21 February 2011

Keynote Address by

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

It is my pleasure to join you this morning at this Launch of the Bloomberg Enhanced Islamic finance platform. This development is timely as Islamic finance is envisioned to continue to make great strides in this new decade. Such an information platform is an important element for the more efficient functioning of the Islamic financial markets in the international financial system. In this recent ten years we have seen significant developments in Islamic finance in both our domestic and the international financial system. In this more challenging and uncertain environment, Islamic finance has demonstrated its resilience and viability and has sustained its growth momentum.

Today, with the increasing internationalisation of Islamic finance, its continued growth and expansion will very much depend on extensive information which can be efficiently accessed. Bloomberg has for two decades been serving the Islamic financial community providing access to news offerings and timely data and information. The initiative today to enhance its Islamic finance platform is thus a highly welcomed development. The seamless flow of information in the Islamic financial markets is integral to facilitate the efficient price discovery process and maintain the vibrancy of the Islamic financial industry. Data and news that transcends boundaries in real time are important for not only investors and financial institutions but also for researchers and scholars in Islamic finance. It will contribute towards enhancing competitiveness, product innovation and strengthen the international financial inter-linkages.

As we enter this new decade, the challenge for the world is to sustain the economic recovery. While there continues to be many problems still to be addressed in the developed world, most emerging economies have continued to do well. In Malaysia, our economy recorded a

strong growth of 7.2% in 2010 driven by strong domestic demand and our stronger economic and financial linkages with other emerging economies. An important part of this recovery is the strong recovery in private investment as capacity utilisation increases and as the dynamic nature of our economy presents new investment opportunities in new growth areas.

For the Islamic finance industry, the year 2011 is set to be an exciting period. The global sukuk issuance in the year 2010 surpassed that of the previous year by more than 20 per cent. Against this positive growth, renewed confidence of investors and issuers is evident. In 2011, the sukuk issuance is projected to surpass the level recorded in 2007 when it sustained the highest level of issuances. The year 2010 also saw Malaysia's evolution as a multi-currency sukuk origination platform with four foreign currency sukuk issuances amounting to about USD3 billion. This trend will benefit from the Bloomberg AIBIM Bursa Malaysia Sovereign Shariah Index (BMSSI) developed by the Association of Islamic Banking Institutions Malaysia (AIBIM), Bursa Malaysia and Bloomberg that is also being launched today as part of the enhancement in the Islamic finance platform.

The launch of this ringgit sukuk index marks another significant milestone in the Malaysian Islamic financial environment as it measures the performance of ringgit denominated Shariah compliant government securities in addition to the benchmarking purposes. This development has been part of the continuous support by AIBIM and Bursa Malaysia to further strengthen Malaysia's position as a leading sukuk market in the world. The collaboration between AIBIM, Bursa Malaysia and Bloomberg is also expected to see a ringgit corporate sukuk index in the offing. Moving forward, efforts are underway

between Bank Negara Malaysia and Bloomberg to broaden this initiative to develop a foreign currency sukuk index. The liberalization of our financial markets is expected to attract more such foreign currency sukuk issuance by sovereign entities, multilateral institutions and multinational corporations.

In further strengthening the infrastructure for the sukuk market, the Malaysian Electronic Clearing Corporation or MyClear, a wholly-owned subsidiary of Bank Negara Malaysia that operates the country's real time gross settlement system and securities depository system, is also undertaking an initiative to promote cross-border financial transaction that is efficient, reliable and secured. This initiative reflects our commitment towards financial integration in the ASEAN region and the global financial system through closer linkage with other central securities depositories, namely Euroclear and the Central Moneymarkets Unit (CMU) of the Hong Kong Monetary Authority. It is expected that other central securities depository will participate in this initiative to heighten this cross-border linkage. MyClear is thus set to be one of the key multilateral settlement platforms that will facilitate sukuk trading transactions. The implementation of this initiative which is scheduled to be completed in the second half of 2011 offers cost-effective access for foreign investors to invest in Malaysian securities deposited with MyClear. At the same time, it will enable Malaysian investors to invest in foreign securities deposited with international and regional central securities depositories institutions. Moving forward, MyClear will continue to expand its horizon to other regions across the world.

Another infrastructure development that is taking shape in the international Islamic financial system is the establishment of the International Islamic Liquidity Management Corporation (IILM). Launched in October 2010, the IILM has begun its operations in Kuala Lumpur on the 1st of February. Its main task is to issue short-term multi-currency liquidity instruments to facilitate the cross-border liquidity management between financial centres and at the same time enhance the financial inter-linkages. The IILM is scheduled to roll out the issuance of liquidity instruments later this year. This will allow for more efficient management of financial flows across borders and thus contribute towards the efficient internationalisation of Islamic finance.

As the Islamic financial community significantly grows in size, it is congruent that this enhanced Islamic finance platform being launched today has widened its outreach to the subscribers globally and from contributors of data and information from institutions around the world. To support this new enhanced Islamic finance platform, Bank Negara Malaysia and the other community members under the MIFC initiative is pleased to be one of the contributors. The MIFC page in the enhanced platform provides insights on Shariah, MIFC business opportunities and key developments. It also hosts the extensive network of Islamic financial community in Malaysia.

On this note, I wish to congratulate Bloomberg, AIBIM, Bursa Malaysia and the many teams that worked on this initiative to serve the Islamic financial industry.

**Advancing Women's Leadership in Public Life
"Power Sharing in the Public Sector" at the Women in Leadership Forum
Kuala Lumpur, 22 February 2011**

Speech by

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

Introduction

In this twenty-first century, it is human capital rather than physical capital that will define performance and progress. Women represent half of the world population and therefore half the potential resource that can drive such performance. This is reinforced by the more recent trend that increasingly, the majority of those with college education are women. Increasingly therefore, this group represents a more significant resource potential that can rise to leadership positions. In emerging economies, where such high powered talent is scarce, gender has not been of an issue. Women have risen to leadership positions based on their merits and capabilities.

Women in Malaysia have certainly made significant strides in their participation in all segments of the Malaysian economy and have demonstrated their ability to lead and to succeed in both the public and private sectors. It is my honour to be here today to speak at this Women in Leadership Forum on the topic on "Advancing Women's Leadership in Public Life: Power Sharing in the Public Sector". In Asia, in particular, women have risen to key positions and have been given the opportunity to contribute to the nation's progress and development. In an age of greater demands for performance and in an environment of increased scrutiny and transparency, the transition to such leadership positions has not been based on gender. Indeed, it is based on the capability as administrators, policy makers and thought leaders. Power sharing is therefore the shared power to contribute to the nation rather than on the power that is wielded. My presentation today will therefore start on the role of the public sector and its accountabilities before discussing women and leadership in the public sector, its challenges and some strategies for success.

Accountabilities of the Public Sector

The role and accountabilities of the public sector differs markedly from the private sector. Unlike in the private sector, financial measures are generally not the indicator of the performance of agencies in the public sector. In addition, actions taken by the public sector have far reaching implications on the economic well being of the public at large and entire spectrum of businesses. Such actions may even have implications on other countries given the greater international interdependence that prevails in the current environment. The responsibility and accountability is therefore immense. History has shown that mismanagement can greatly damage a nation resulting in high costs to the people of the country. In contrast, well managed nations have brought great prosperity to its people.

Being in the public sector is all about bringing value and benefits to its citizens. Such benefits can include improved housing, education, health and transportation. It could also include eradication of poverty, reduction in crime and environmental sustainability. In the current environment of greater transparency and enhanced communication channels, there is now greater awareness of the prevailing circumstances. This has produced high expectations. It has also reduced tolerance for inefficiency, poor performance, irregular practices and non-delivery of the results. The expectations are for a public sector that best serves its nation and that delivers the expected results in the most effective and efficient manner.

Similar to the private sector, the public sector is confronted with a dynamic environment of rapid change. Approaches that have produced previous successes may now have become no longer relevant. In these situations, previous

skills and capabilities will no longer be adequate. In addition, it will be the cumulative efforts of all parts of the public sector that will produce the results. It will no longer depend on a specific part of the system but on several parts of the system. Previous arrangements will therefore become no longer effective. New challenges that have become more complex will require new tools and systems to solve them. The organisation will thus need to be transformed to meet the changing requirements of the new environment.

To contribute to a nation's progress and development, therefore, demands for the ability to manage these new challenges. The role of the leadership in the public sector has thus changed significantly. Successful nations are those that have accorded priority to its human capital and to organisational review and transformation. Given the scarce high-powered human capital, there are tremendous opportunities for women with the capabilities to take on leadership responsibilities in the public sector and thus contribute towards achieving the greater well being of the population.

Advancing Women's Leadership in the Public Sector

As an important component of the human capital resources women are increasingly becoming a growing force in the talent pool. To advance forward to leadership positions requires the investment in leadership development. While there are several common threads in leadership in both the private and public sectors, there are some specific leadership characteristics that are important for the public sector.

Firstly, it involves having great clarity of the vision - of the objective that needs to be achieved by the organisation and the results that needs to be delivered. Unlike in the private sector, this is not measured in terms of financial results. Frequently this may be difficult to measure in quantitative terms. Nevertheless, it is vital so that the resources and energies of the organisation can be aligned to achieving the results. Equally important, it allows the organisation to stay focussed, to stay on course when there are a multitude of pressures that may disrupt or distract

the organisation by different stakeholders that have different perceptions and expectations on the organisation.

Secondly, is having the ability to articulate this vision with others in the organisation and also with those that will be affected by the actions taken by the organisation. This is to ensure that the energies of the workforce will be channelled to achieving the strategic results required. Very often, the shared vision with those that are affected by the actions of the organisation also allows for the combined efforts to be mutually reinforcing.

Thirdly, and importantly is knowing and understanding the business and the key elements that drive the organisation. Knowing how the system works and how the objectives might be realised. This involves having the knowledge, the skills, the information, the methodologies and the organisational structures needed to deliver the results. This is important so that the ideas can be translated into results.

Fourth, given the nature of the business of the public sector and the diverse stakeholders involved, leadership in the sector requires coordination and integration skills that is able to pull together diverse thinking and diverse information and the ability to integrate the different perspectives into a solution that produces the desired outcomes. This will also involve coordination skills required to bring together not only the different parts of the organisation but also other organisations in the public sector that can contribute to achieving the desired results.

Fifth, it involves managing trade-offs. Frequently, actions that need to be taken involve different implications on different target groups. This may involve interests that are conflicting. This will therefore involve balancing the trade-offs and managing the risks to the different interests of the different segments of society.

Sixth, is a skill that is increasingly important in the current environment. It is the management of crisis. Unlike previously, when conditions were relatively stable, the current environment is frequently plagued by crisis. During such times of distress and instability, the public

sector is at the forefront in providing a response, in providing a solution to the crisis. In making decisions, during such times, any delays, inaction or wrong policies can produce widespread damage to the entire country.

Seventh, is the ability to effectively manage under intense pressures. Such pressures can emanate from the high expectations of the different stakeholders, the crisis conditions or from the failure of other parts of the public sector that have implications on your performance. However, being strategically focussed and having the ability to stay on course avoids being derailed by such pressures.

Eighth, is then courage and bravery to undertake the responsibilities. At the extreme it requires having nerves of steel. This is to enable sound decisions at the time of high level of distress and ensures that the organisation remains calm and cohesive during such times.

Ninth, is having the drive and unwavering perseverance to pursue the vision. The agenda of public sector which is to ultimately improve the well being of its citizens is a long haul business which therefore requires perseverance. It often requires several pre-conditions to be in place, it requires having the enabling environment and the different parts of the public sector to come together to act cumulatively to deliver the results. Frequently, this synchronisation does not happen. Strong convictions on the cause, reinforced by the capabilities and supported by the perseverance increases the potential to produce results that makes the difference.

Finally, and most importantly is the ability for continuous reinvention. The changing environment is more globalised, more competitive, more uncertain and ambiguous, more technologically driven, more prone to crisis, and is subject to greater scrutiny and demands for greater transparency. This more difficult operating environment demands new skills and abilities to manage these new challenges. Indeed, the role of leadership is dynamic and has changed considerably. Reinvention is to support the ability to creatively respond to change.

Building Effective Organisations

To strengthen our ability to manage the new challenges arising from the changed environment, equally important is building effective organisations with the capabilities that will deliver results. This will involve organisational reviews and the continuously modernising of the organisation so that it can continue to best serve the nation. Such endeavour will require periodic environmental scans and envisioning to revalidate the strategic thrust of the organisation. Modernisation efforts then need to be supported by a blueprint of the strategic steps and initiatives that need to be taken. Women that have the capability must be brought in at the leadership levels to participate in this process. To increase opportunities for women would require opportunities for education and for the acquisition of experience and exposure. After formal education, it is experience and expertise gained from coaching and mentoring that will further enhance an individual's contribution to organisational effectiveness.

In a modernised organisation, the performance management process demands the highest level of excellence and the ability to produce the desired results within the specified time frame. Transformed organisations involve a shift from task based activities to becoming result oriented with clear focus on the mandate and the key performance indicators. To incentivise such a performance driven organisation, recognition of performance and the reward system in place needs to be highly differentiated. For many countries this is yet to be put in place.

The organisational transformation also needs to place value on life- long learning, knowledge management and opportunities for greater work life balance. Opportunities for learning are vital for capability development. Finally, new governance structures also are keys to ensure the rigour of how decisions are made in the organisation and that there are sufficient checks and balances to ensure the best decisions are made and the highest level of credibility and integrity are achieved.

Challenges

While the opportunities are immense for women in the public sector, yet few rise to leadership positions. While there is still a glass ceiling, as we advance forward into the future, the foundations are already in place for women to advance forward into leadership positions. The challenge is to recognise continuous reinvention that is needed - to acquire new knowledge, new skills, new experience so as to be able to have the new capabilities to deal with the new challenges.

For a woman who is a mother, wife and daughter, the sacrifice involved is great. The challenge will be to achieve a balance so that work performance is not being adhered at all cost. Support systems at the work place and at home is vital. Equally important is time management, stress management and people management. Finally, more so in the public sector - as the pressures come from several fronts given the far reaching and wide spread implications of the actions taken, leadership positions require a high level of courage and endurance. Having strategic

focus and energies aligned to achieving the results reinforces the ability to cope under such pressures.

Conclusion

Let me conclude my remarks. The demands that leadership in the public sector entails is immense. Such leadership is about delivering results and making a difference in the lives of others. To achieve this, there needs to be a conscious need to reinvent ourselves to be able to rise to the imperatives of duty to the nation. This reinvention involves leadership, institutional and organisational capabilities to respond to the changes in the environment. It is with these transformations that we are set to successfully lead.

While women are a growing force in the talent pool, the real power will be a shared power. It will be women and men working together leveraging on each others comparative strengths, experience and knowledge that will allow us to make the difference that best suits our circumstances and that is able to bring us to the best level of performance and progress.

CALENDAR OF EVENTS Jan – Mar 2011

16 January 2011

Governor Dr. Zeti highlighted several key messages during her welcoming address at the Financial Stability Institute (FSI) – Executive Meeting of East Asia Pacific Central Banks (EMEAP) high level meeting for Banking Supervisors. She said that given the dynamics of the financial markets today, more effective engagements between policy makers and the industry, both locally and across borders is important to create greater awareness of key financial stability issues. These engagements would sharpen supervisory and management judgements as well as promote greater collaboration on multiple fronts. She added that enhanced prospects for greater global financial stability depend on sustained commitment to these priorities. She emphasized that the ultimate goal is to strengthen policy makers collective ability to anticipate and respond effectively to developments that affect financial stability in the present challenging times as well as in the future.

19 January 2011

The Bank announced the launch of the Pengurusan Wang Ringgit Anda (POWER!) Programme as part of its ongoing efforts to promote financial literacy and sound financial management among the members of the public. The POWER! Programme is targeted at young individuals and new borrowers with the aim of empowering them to effectively manage their finances. This will in turn contribute towards promoting better protection for financial consumers and a more resilient household sector. The Programme, managed by Agensi Kaunseling dan Pengurusan Kredit (AKPK), is offered free of charge nationwide and it provides individuals with practical financial knowledge and skills as well as decision-making tools to make sound financial decisions.

27 January 2011

At its first meeting for 2011, the Bank's Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 2.75%. The MPC stated that at this stage, it considers the current monetary policy stance as appropriate and consistent with the current assessment of economic growth and inflation prospects. It added that the stance of monetary policy would continue to remain accommodative and supportive of economic growth. On the same day the Bank also announced the appointment of three new Assistant Governors; Encik Donald Joshua Jaganathan, Encik Abu Hassan Alshari Yahaya and Encik Marzunisham bin Omar effective 1 February 2011.

18 February 2011

The Bank announced that the Malaysian economy registered a growth of 4.8% in the fourth quarter of 2010, driven by strengthened domestic demand. Higher private consumption and public sector capital spending contributed to the expansion in domestic demand. On the supply side, all economic sectors continued to expand further during the quarter, with the exception of the primary sectors namely agriculture and mining. For the year as a whole, the Malaysian economy registered a growth of 7.2%. The headline inflation rate increased by 2% in the fourth quarter attributed mainly to higher food and fuel prices.

21 February 2011

In her keynote address at the Launch of Bloomberg's Enhanced Islamic Finance Platform in Kuala Lumpur, Governor highlighted that the global sukuk issuance in 2010 surpassed that of the previous year by 20 percent. She added that the year 2010 also saw Malaysia's evolution as a multi-currency sukuk origination platform with four foreign currency sukuk issuances amounting to about USD3 billion. She further noted that the launch of Bursa Malaysia Sovereign Shariah Index (BMSSI) marked another significant milestone in the Malaysian Islamic financial environment and further strengthened Malaysia's position as a leading sukuk market in the world.

24 February 2011

The Bank was once again awarded the "Best Central Bank in Promoting Islamic Finance" at the Islamic Finance news Awards 2011 Ceremony held at Shangri-La Hotel, Kuala Lumpur. This was the sixth consecutive year that the Bank had won the award, since the inception in 2005.

11 March 2011

At its second meeting for 2011, the Bank's MPC maintained the OPR at 2.75%. Moving forward, it said while the stance of monetary policy is expected to remain supportive of growth, the degree of monetary accommodation may be reviewed given the sustained growth in the economy and risks to inflation. This is to ensure the sustainability of the growth prospects on the Malaysian economy.

As a pre-emptive measure to manage this risk of build-up of liquidity (arising from significant capital inflows into emerging economies particularly Asia) from resulting in macroeconomic and financial imbalances, the Bank also announced the increase in the Statutory Reserve Requirement (SRR) Ratio from 1.00% to 2.00% effective 1 April 2011. The increase in the SRR is thus an instrument to manage liquidity and not a signal on the stance of monetary policy.

On the same day, the Bank also announced a New Motor Cover Framework to address concerns of high premiums and difficulty in having access to motor cover. The new framework would improve the efficiency in providing motor cover policies and would ensure greater public access to purchase motor insurance at reasonable prices. The public would also benefit from a much better service and secure early compensation. Under the new framework, insurance premium for several motor vehicle categories will be adjusted gradually starting January 2012 over a period of four years. The new framework would also improve the efficiency of claims settlement by reducing the average period to six to 18 months from one to five years currently.

18 March 2011

The Bank announced new measures on credit cards as part of its continuous efforts to promote prudent financial management among users as well as responsible business practices by the issuers, with further enhancements in the security infrastructure. With immediate effect, the minimum annual income requirement for credit card eligibility was raised to RM24,000 from RM18,000 previously. Further, card holders earning RM36,000 per annum or less, can only hold credit cards from a maximum of two issuers with their credit limit capped to double their monthly income per issuer. In addition, issuers are required to be fair, transparent and responsible in marketing and offering of credit card facilities to consumers. This includes disallowing issuers from; increasing credit limit without obtaining cardholders' consent and; offering credit advance in the form of cheque payable to cardholders unless the card holders have requested for it. Furthermore, effective 1 January 2012, card issuers will implement Short Messaging Service (SMS) alerts to their card holders after transactions are made. This will be followed by the implementation of the Personal Identification Number (PIN) verification for all card transactions from 1 January 2015 onwards.

23 March 2011

The Bank released its Annual Report and the Financial Stability and Payment Systems Report for 2010. At the press conference, Governor announced that the Malaysian economy experienced a strong growth in 2010 with an expansion of 7.2%. Growth was driven mainly by robust domestic demand, with strong expansion in private sector activity. Meanwhile, the public sector continued to support the domestic economy through programmes to enhance the country's infrastructure and public sector delivery system. On the supply side, all economic sectors registered a strong performance in 2010 with the services sector being the largest contributor to growth. Inflation increased during the year driven by supply factors arising from higher food and commodity prices and subsidy rationalisation activities. Nevertheless, overall inflation remained low with Consumer Price Index (CPI) averaging 1.7%. As for the Malaysian economy outlook in 2011, Governor highlighted that the economy is projected to grow by 5-6% while inflation is expected to average at 2.5 – 3.5%.

On the financial system, Governor highlighted that the Malaysian financial system remained stable and supportive of economic growth. Financial intermediation remained efficient and broad-based in 2010, supported by the orderly functioning of financial market. The Islamic banking system continued to be resilient, supported by high capitalisation, improved asset quality and sustained profitability in an environment of ample liquidity. The payment and settlement systems also remained resilient and continued to operate smoothly contributing to the stability of the financial system and maintenance of public confidence. As for the key developmental priorities in 2011, Governor noted that the Bank will focus on the implementation of a new financial sector blueprint which aims to enhance the capacity and capability of the Malaysian financial sector to serve the needs of businesses and consumer towards a high value added and high income economy.

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